The Economist

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Why some people like risk

California on a roll

Europe's insane climate policies

The inevitability of financial instability

Beerometer: how ale sales explain Africa

China loses its allure

Why life is getting harder for foreign companies

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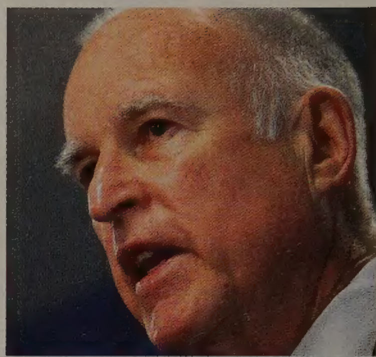

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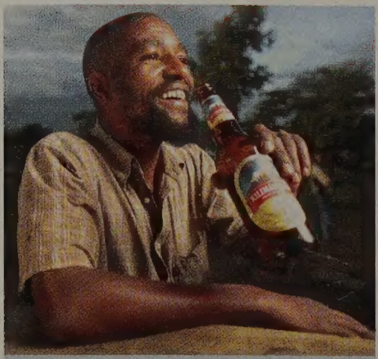

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Politics

A conference that was supposed to pave the way to peace in **Syria** opened in the Swiss town of Montreux before moving to Geneva, with little hope of progress in either. The UN secretary-general, Ban Ki-moon, invited **Iran** to attend, then disinvited it when the Syrian opposition threatened to walk away. The opening speeches were marred by recriminations. Separately, evidence emerged of mass torture and killings being carried out in Syria's jails.

A referendum in **Egypt** on a new constitution was endorsed by 98% of those who voted in a turnout of 38% of those eligible. Supporters of the military-backed government said that fewer voted in a similar referendum held in 2012 by the previous government run by the Muslim Brothers, which boycotted this poll.

A "national dialogue conference" in **Yemen** ended after ten months without a clear result. Violent unrest persisted in both north and south.

Israel's security service arrested three men in East Jerusalem whom they claimed to be members of al-Qaeda planning an attack on the American embassy and other targets. The men were allegedly recruited in the Gaza Strip.

Nigeria's president, Goodluck Jonathan, sought to assert more control over his fractious country by sacking a clutch of senior generals for failing to defeat Boko Haram, a violent Islamist group in the north, or to stem the theft of oil by brigands in the south.

The new interim president of the **Central African Republic**, Catherine Samba-Panza, said that there were still too few foreign troops to restore peace in her country, which remains in the throes of civil strife.

Workers at **South Africa's** platinum mines went on strike demanding higher pay. It is the biggest walkout by the increasingly militant mineworkers' unions since 2012.

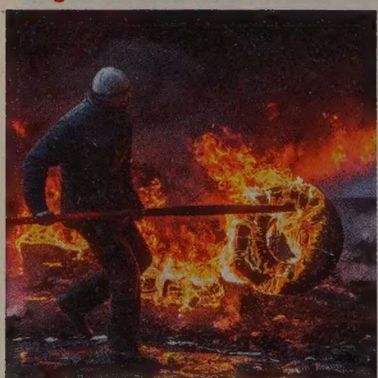
Worth less

Venezuela formalised its dual exchange-rate system, maintaining a preferential rate of bolívars to the dollar for essential imports like food and medicine and forcing Venezuelans travelling abroad to pay more to obtain dollars. Critics called the measure a stealth devaluation.

In its latest ruse to stop foreign-exchange reserves from falling, **Argentina** introduced rules requiring anyone buying goods through foreign websites to pick up their purchases via a customs office. Argentines can buy only $25-worth of goods from abroad tax-free. The measure will make it easier for the government to collect duties.

Concerns grew about **Brazil's** preparedness to host this year's World Cup. FIFA, football's governing body, said that the southern city of Curitiba might not be allowed to host matches during the tournament unless it finishes building its stadium soon.

The gloves come off



In **Ukraine**, five protesters were killed and hundreds injured in clashes with police in the capital, Kiev. They were the first deaths in anti-government protests that started in November and have recently turned violent, triggered by the adoption of a new anti-protest law. Vitaly Klitschko, an opposition leader (and former heavyweight-boxing champion), threatened to lead protesters "on the attack" if President Viktor Yanukovych does not call early elections.

Russia was implicated in the 2006 poisoning in London of Alexander Litvinenko, a former KGB spy, when the investigating coroner, stated that there is a "prima facie case as to the culpability of the Russian state". He made his statement in a written submission for a legal challenge brought by Mr Litvinenko's widow to the government's decision not to hold a public inquiry into her husband's death.

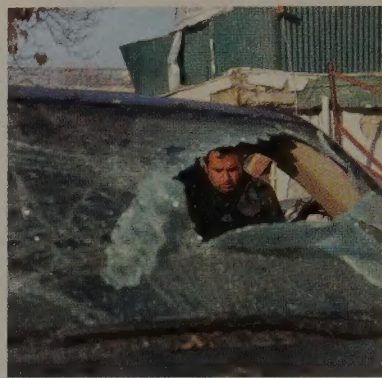
Matteo Renzi, the leader of **Italy's** centre-left, formed a controversial electoral pact with Silvio Berlusconi, a former prime minister who was expelled from parliament but still leads the main centre-right party. With Mr Berlusconi's support, Mr Renzi has a majority for a sweeping reform package that is set to rewrite the electoral law.

Siphoning off China's wealth

A prominent political campaigner, Xu Zhiyong, went on trial in **China**, charged with "gathering crowds to disrupt public order". He is one of several to be tried this week from an activist group that has argued for the public disclosure of official assets. A report, based on leaked documents from firms that set up offshore companies and accounts, accused China's elite of establishing many such vehicles in tax havens abroad.

The **Thai government** imposed a 60-day state of emergency in Bangkok and nearby provinces, after months of protests by demonstrators demanding the resignation of the prime minister, Yingluck Shinawatra. Meanwhile, a leader of a pro-government group was shot and wounded by unidentified attackers.

A bomb killed six policemen in north-west **Pakistan** when they were on their way to guard polio-vaccination teams. A young boy was also killed. And three health workers taking part in a vaccination drive in Karachi were killed. Pakistan is one of three countries where polio remains endemic. Militants oppose the vaccination schemes, which they mistakenly see as a Western plot to sterilise Muslims.



A suicide-bomb near a popular restaurant in Kabul killed 21 people, including a senior IMF official. Meanwhile, the Pentagon proposed keeping a 10,000-strong training and support force in **Afghanistan** after the end of 2014 for two years. That is a much shorter period than earlier estimates, but it would allow Barack Obama to claim on leaving office that he had brought two wars to an end, at least as far as America was concerned.

Intelligence test

Mr Obama proposed to reform the way the **National Security Agency** spies on Americans and foreigners. He called for curbs both on warrantless searches and on the stockpiling of phone data. Some of his proposals will require legislation from Congress, where the NSA has some strong supporters.

Bob McDonnell, who has just finished his term as governor of **Virginia**, was charged, along with his wife, with accepting gifts and loans from a diet-pill tycoon in exchange for favours from the state. Mr McDonnell, who denies the allegations, is the first governor since the civil war to face criminal charges in Virginia.

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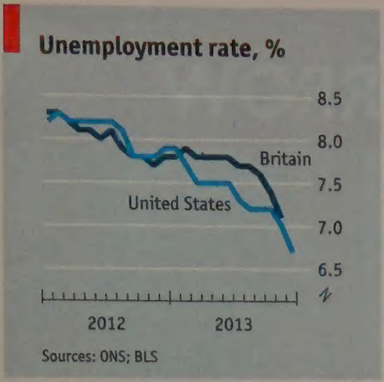
Business



Sources: ONS; BLS

Britain's **unemployment rate** fell sharply to 7.1%, almost touching the 7% that the Bank of England once said in its "forward guidance" would prompt it to contemplate an increase in interest rates. When it published its guidance the central bank suggested that unemployment would not drop to 7% until 2016, though it has since said Britain will breach that magic number later this year. With the recovery firmly under way (the IMF now expects GDP to grow by 2.4% in 2014) many think unemployment will dip below 7% before long.

Really looking forward

Meanwhile, the minutes from the Bank of England's meeting in early January confirmed that it is not considering raising **interest rates** soon. The Federal Reserve meets on January 28th and 29th, when it will consider further tapering of its asset-buying programme.

China's economy grew by 7.7% in 2013, according to the official measure of GDP. This was above the government's target of 7.5%, which some economists had doubted could be met.

A judge in America ruled that the Big Four **accounting** firms—KPMG, Deloitte, PWC and Ernst & Young—should hand over documents regarding Chinese clients listed in America that are under investigation for securities fraud. The Chinese affiliates of the Big Four have refused to do so for fear of breaking China's strict rules on company secrecy. The firms will appeal, a lengthy process.

The European Union presented new, long-awaited plans to reduce **greenhouse gases**, setting a binding goal for 2030 to reduce carbon emissions by 40% from 1990 levels. It also wants energy from renewable sources, such as wind power, to account for at least 27% of total energy use in the EU overall, but did not bind individual countries to specific targets.

Deutsche Bank reported a surprise €1 billion ($1.4 billion) loss for the fourth quarter of 2013. Revenue was down at the German bank's corporate banking and securities business, but earnings were also affected by litigation costs, a worry for some investors. Deutsche is one of the few big banks still awaiting the conclusion of regulatory investigations into its role in the LIBOR rate-rigging scandal.

Mohamed El-Erian unexpectedly quit as chief executive of PIMCO, one of the world's largest bond investors with $2 trillion in assets under management. Returns on bonds suffered from rising yields last year, though no reason was given as to why Mr El-Erian is stepping down. He is a prolific financial commentator and will continue to write articles. Bill Gross, PIMCO's other big star, remains chief investment officer.

The Big Blues

IBM's fourth-quarter earnings disappointed investors. The company reported a profit, but revenues slid, mostly because of slowing demand for its server hardware. This week it sold its x86 server business for $2.3 billion to China's Lenovo (which bought IBM's PC business in 2005). Ginni Rometty, the chief executive, has undertaken a big push into cloud computing, in which IBM's sales grew by 69% last year.

Prosecutors in Taiwan charged several former employees at **Foxconn** in a long-running investigation into bribes paid by its suppliers. Foxconn assembles products for Apple, Sony and others at its factories in China.

South Korea's financial authorities said that the account details of up to 104m **credit cards** had been stolen. Koreans on average hold around four credit cards. A technical contractor working on forgery systems at three credit-card companies has been accused of downloading the data. The news comes after tens of millions of customers at America's Target retail chain had their credit-card information stolen.

Consumer spending was a factor behind **South Korea's** economy growing by 4% in the last three months of 2013, its strongest performance in three years. GDP grew by 2.8% for the year.

Carl Icahn, an activist investor with a lengthy record of agitating for better returns for shareholders, set his sights on **eBay**. The e-commerce company revealed that Mr Icahn has bought a 0.8% stake and wants it to spin off **PayPal**, which it bought in 2002. Sales at PayPal are increasing at a faster pace than at eBay's shopping websites and it has more users.

If you're going to San Francisco

San Francisco's board of transport voted to start imposing fees on the **commuter shuttles** operated by Google and other big technology firms that ferry workers from the city to their suburban offices. The buses have become the focus of protests by local residents, who gripe about the influx of well-paid tech employees driving up prices.

Other economic data and news can be found on pages 76-77

China loses its allure

Life is getting tougher for foreign companies. Those that want to stay will have to adjust

ACCORDING to the late Roberto Goizueta, a former boss of The Coca-Cola Company, April 15th 1981 was "one of the most important days...in the history of the world." That date marked the opening of the first Coke bottling plant to be built in China since the Communist revolution.

The claim was over the top, but not absurd. Mao Zedong's disastrous policies had left the economy in tatters. The height of popular aspiration was the "four things that go round": bicycles, sewing machines, fans and watches. The welcome that Deng Xiaoping, China's then leader, gave to foreign firms was part of a series of changes that turned China into one of the biggest and fastest-growing markets in the world.

For the past three decades, multinationals have poured in. After the financial crisis, many companies looked to China for salvation. Now it looks as though the gold rush may be over.

More pain, less gain

In some ways, China's market is still the world's most enticing. Although it accounts for only around 8% of private consumption in the world, it contributed more than any other country to the growth of consumption in 2011-13. Firms like GM and Apple have made fat profits there.

But for many foreign companies, things are getting harder. That is partly because growth is flagging (see page 59), while costs are rising. Talented young workers are getting harder to find, and pay is soaring.

China's government has always made life difficult for firms in some sectors—it has restricted market access for foreign banks and brokerage houses and blocked internet firms, including Facebook and Twitter—but the tough treatment seems to be spreading. Hardware firms such as Cisco, IBM and Qualcomm are facing a post-Snowden backlash; GlaxoSmithKline, a drugmaker, is ensnared in a corruption probe; Apple was forced into a humiliating apology last year for offering inadequate warranties; and Starbucks has been accused by state media of price-gouging. A sweeping consumer-protection law will come into force in March, possibly providing a fresh line of attack on multinationals. And the government's crackdown on extravagant spending by officials is hitting the foreign firms that peddle luxuries (see page 35).

Competition is heating up. China was already the world's fiercest battleground for global brands but local firms, long laggards in quality, are joining the fray. Many now have overseas experience, and some are developing inventive products. Xiaomi and Huawei have come up with world-class smartphones, and Sany's excellent diggers are taking on costlier ones made by Hitachi and Caterpillar. Consumers will no longer pay a hefty premium just because a brand is foreign. Their internet savvy and lack of brand loyalty makes them the world's most demanding customers (see pages 18-20).

Some companies are leaving. Revlon said in December that it was pulling out altogether. L'Oréal, the world's largest cosmetics firm, said soon afterwards that it would stop selling one of its main brands, Garnier. Best Buy, an American electronics retailer, and Media Markt, a German rival, have already left, as has Yahoo, an internet giant. Tesco, a British food retailer, last year gave up trying to go it alone, and entered a joint venture with a state-owned firm.

Some of those who are staying are struggling. IBM this week said that revenues in China fell by 23% during the last quarter of 2013. Rémy Cointreau, a French drinks group, reported that sales of its Rémy Martin cognac fell by more than 30% during the first three quarters of last year because of a plunge in China. Yum Brands, an American fast-food firm, said in September last year that same-store sales in China had fallen by 16% in the year to date. Its problems were partly the result of a government investigation into alleged illegal antibiotic use by its chicken suppliers.

Investors no longer celebrate firms with big investments in China. Our Sinodependency Index weights American multinationals by their China revenues. Sino-dependent firms used to outperform their peers, but in the past two years their share prices have done worse than others'.

As Jeffrey Immelt, the boss of GE, puts it, "China is big, but it is hard...[other] places are equally big, but they are not quite as hard." Companies that want to stay in China will have to put in even more effort. Many will have to change strategy.

One China is over

First, rising costs mean that bosses must shift from going for growth to enhancing productivity. This sounds obvious, but in China the mentality has long been "just throw more men at the problem". One way to get a grip on costs is to invest in labour-substituting technology, not only in manufacturing but also in services. Also, multinationals are falling behind local firms like Alibaba and Tencent in exploiting a surge of big data coming from e-commerce and smartphones.

Second, tighter control is another must. GSK's bosses in London admitted that its problems in China were partly the result of executives acting "outside of our processes and control". Managers in headquarters must ensure that executives' behaviour and safety standards are as high as anywhere else in the world. Chinese consumers are even more active on social media than those in the West, so any scandal is instantly broadcast nationally.

Lastly, a One China policy no longer makes sense. Most firms set up their local offices when China's economy was smaller than $2 trillion. Although it will soon be five times that size, many still try to run their operations from Shanghai. That makes little sense when tastes in food, fashion and much else vary between provinces and mega-cities that have populations as big as European countries. Some 400m Chinese do not speak Mandarin. So even as CEOs need to keep a closer eye on standards and behaviour, they should localise marketing and perhaps product development.

China is still a rich prize. Firms that can boost productivity, improve governance and respond to local tastes can still prosper. But the golden years are over. ■

Road safety

Reinventing the wheel

Roads bring growth to poor countries—and death. Making them safer need not cost much

DURING the past two decades astonishing progress has been made in fighting infectious diseases in poor countries. Polio has almost been eradicated; malaria is being tamed (see page 66); HIV/AIDS is slowly being brought under control. Yet almost unnoticed, another epidemic is raging across the developing world, this one man-made.

Road crashes now kill 1.3m people a year, more than malaria or tuberculosis. On present trends, by 2030 they will take a greater toll than the two together, and greater even than HIV/AIDS (see page 50). The vast majority of victims die in poor and middle-income countries—1.2m in 2011, compared with 99,000 in rich ones. For every 100,000 cars in the rich world, fewer than 15 people die each year. In Ethiopia the figure is 250 times higher.

It is tempting to see the carnage as the price of development. Building roads is a highly effective way of boosting growth: the World Bank finds many projects to fund that do better than its minimum acceptable economic rate of return of 12%. In the rich world road deaths and growth went hand-in-hand for decades: the first death-by-car was in 1896 and the peak came in the 1970s.

However, since then, restraints on drivers and investment in safety have slashed road deaths in the rich world by more than half. New York's roads are now at their safest since records began in 1910. Sweden is still some way from its stated goal of ending road deaths altogether, but in 2013 just one Swedish child under seven died in a crash. Technology such as alcolocks, which prevent drunk-driving, and (eventually) self-driving cars will make roads in the rich world safer still.

Governments in poor countries tend to assume that they, too, must see deaths soar before they are rich enough to think about saving lives. Aid donors and development banks may conclude that a dangerous road is better than no road at all. But the experience of rich countries has shown that roads can be made safer cheaply and simply. And far from being an unaffordable luxury, safe roads make better economic sense than dangerous ones. Most crash victims are boys and working-age men. Their death or maiming leaves families destitute and deprives countries of their most economically valuable citizens. In medical bills, care, lost output and vehicle damage, the carnage costs desperately poor countries as much as 10% of GDP.

Some of the recent safety measures in rich countries, such as dedicated cycle highways, count-down lights at crossings and strict vehicle standards, are pricey. But the big lifesavers are not. Just a small fraction of the cost of building a road can cut deaths dramatically. Roads used by pedestrians need footpaths: 84% around the world currently have none. They need safe places for those pedestrians to cross. Roads with fast traffic need well-designed junctions and central barriers to stop head-on collisions. Governments need to hammer home on billboards, radio and television that seatbelts and motorcycle helmets save lives—and to ensure that police and courts enforce laws against speeding and driving while drunk.

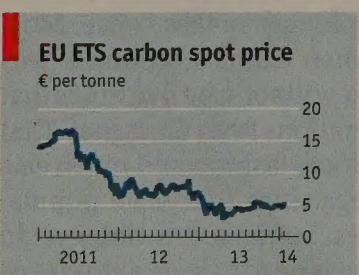
Such steps can cost peanuts: the cost of averting a death or injury using speed bumps at deadly junctions in sub-Saharan Africa is a piffling \$7; fences between cars and pedestrians in Bangladesh, \$135. Yet few places tackle road deaths with the same determination as infectious diseases, and charitable donations are a tiny fraction of the \$4 billion promised annually to fight HIV/AIDS, malaria and tuberculosis. In most countries more than half of all deaths happen on under a tenth of roads.

Roads bring hope to poor people, and misery as well. A little money spent on safety can tip the balance sharply, to everyone's benefit. ■

European climate policy

Worse than useless

Current policies are a mess. Here's how to fix them



SINCE climate change was identified as a serious threat to the planet, Europe has been in the vanguard of the effort to mitigate it. The policies it has adopted are designed with two aims in mind: to cut European emissions drastically and to push other big emitters into adopting similar policies. By both measures, they have failed.

That America and China have not taken serious steps to reduce their own emissions is hardly Europe's fault. Yet had Europe's policies worked better, other countries might have been more inclined to emulate the leaders in the field. That is one reason why the European Commission's announcement on January 22nd of modest increases in its targets for emissions reductions and renewable-energy use, rather than a complete overhaul of the system, was such a disappointment. Another is that the existing policies impose heavy costs on European consumers and companies, and well-designed ones could cut emissions much more cheaply.

European climate policy has two main strands. One is a carbon market to raise the price of pollution. The other—to give an extra push to investment, research and development in green energy—is a programme for boosting renewable energy through production targets and subsidies on, for instance, ▸▸

wind and solar power. Neither has worked.

Europe's targets for the proportion of energy that is supposed to come from renewables—27% by 2030 for the EU as a whole—are substantial, and its subsidies generous. As a result, the renewable-energy sector has grown mightily. But much of it is not exactly the fuel of the future. The largest source of renewable energy in Europe is wood. The cost of subsidies has been far greater than anyone had expected: €16 billion ($20 billion) in Germany in 2013, which works out at a massive €150-200 per tonne of carbon dioxide. (Home insulation, in contrast, saves money while reducing emissions.) And the damage to the old electricity providers has been far worse than expected. The 20 largest European energy utilities have lost a jaw-dropping €500 billion in market value since 2008.

The renewables policy also undermines the carbon market—the EU's emissions-trading scheme (ETS), on which companies trade the permits their governments give them to emit carbon. The trading system is designed to ensure that each tonne of carbon is saved at the lowest cost. But when electricity generators cut emissions under the renewables programme, they end up with more ETS allowances than they need. They sell the excess to other users, who can then emit more carbon than before, so the renewables target does not reduce emissions. But it increases the effective supply of permits, which pushes down the price—now languishing at around €5 a tonne, while companies are cutting emissions at a cost of over €150 a tonne under the renewables programme.

Given that many of Europe's economies are so weak, it is tempting to say: abandon these failed policies and give up trying to restrict emissions. The trouble is, carbon is still building up in the atmosphere, evidence of global warming is accumulating in the oceans and a lot of the increase in carbon dioxide in the atmosphere since the industrial revolution came from Europe. The continent therefore has a responsibility to get the world to change its ways—and to change its own.

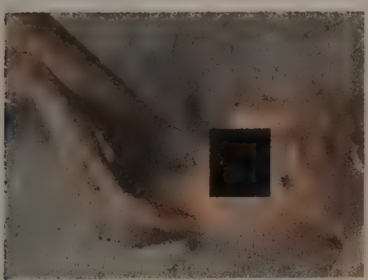
A proper model for others

Instead of tinkering with the renewables targets, Europeans need to scrap them, and to get serious about the carbon market. The numerous exemptions—which include the makers of pianos and crocheted items—which allow companies to ignore it should be removed. That would raise production costs in a few industries, such as steel, but would provide bigger benefits to the economy as a whole. Carbon reduction would be more efficient. Governments would get tax revenues from the sale of permits which could be used to narrow budget deficits. Electricity prices would fall if carbon were no longer squeezed using exorbitant subsidies. Companies would have an incentive to invest in cheaper ways to cut emissions, such as switching from high-carbon coal to lower-carbon gas—which Europeans are ignoring. A switch to shale gas cut American emissions by 12% in 2007-12, more than in Europe. And if Europeans could make their carbon market work, other countries might even take notice and follow suit. ■

Syria's civil war

Desperate times

A conference on Syria is not enough. The West should also arm the rebels



NOBODY thinks that the Geneva negotiations, which began on January 22nd after months of effort, will bring peace right away. But with civil war raging inside Syria, just getting people around the same table feels like progress; and, it is argued, the talks might lay the ground for negotiations that may one day lead to a ceasefire, or even to power changing hands. Meanwhile, they can broker local truces and get relief to Syrians dying for lack of food and medicine.

Anything that would alleviate Syria's plight is welcome. But if America and Europe are serious about helping Syria, they should arm the rebels fighting the regime.

Out-thinking, out-manoeuvring, inhuman

That is a message people do not want to hear. Then again, neither do they want to face up to the brutality inside Bashar Assad's prisons. This is not casual thuggery but, as a security official who defected from the regime with thousands of horrific photographs has revealed (pictured), an audited policy of official terror administered on an industrial scale. The violence Mr Assad has used has driven reason and tolerance out of what was one of the Middle East's most integrated countries. Well over 100,000 people have died and millions have fled their homes. The hatred is spreading to Lebanon and Iraq.

The Geneva gathering cannot drain such an ocean of suffering and wrongdoing. It is built on the premise that Mr Assad will relinquish power through a transitional government. But why should he? He believes he is winning. He is holding his own against rebel attacks, or even gaining territory. The programme to eliminate his chemical arsenal, imposed after he murdered about 1,000 civilians in a nerve-agent attack, has turned him into a partner of the West (see page 37). He set out to radicalise the rebels, releasing jihadists from his jails early in the conflict. This programme has been so successful that Western voters now think the rebels are as vile as Mr Assad.

Geneva could even get in the way of peace. The humanitarian aid that may come from the talks is desperately needed by Syrians, but it comes at a cost, because UN aid agencies will, again, depend on Mr Assad for co-operation. Peace is almost impossible unless Iran, Mr Assad's biggest backer, also leans on the regime. Yet Iran was barred from the conference only hours after having been invited, because it will not sign up to the condition that he surrenders power. To cynics, Geneva is a device that lets everyone pretend to have a Syria policy even when they don't. That may be deft diplomacy, but it is a licence for inaction, and the price is counted in Syrian suffering.

As talks drag on, Russia and Iran will continue to boost Mr Assad's strength. It would be wrong to let the balance tilt so far that he can dictate terms. The best way to break the deadlock would be for the West to arm and train selected rebels, as it should have done almost from the start of the violence. Many ▸▸

fear that the beneficiary of money, equipment and arms would be al-Qaeda, which matches only Mr Assad in its contempt for human life and Western democracy. But over the past few weeks that risk has diminished, as nationalist Sunni groups, including devout Islamists, have turned against the Islamic State of Iraq and al-Sham (ISIS), an al-Qaeda affiliate. Not only are arms and money less likely to end up in the wrong hands, but the nicer rebels—even if they are not the most reliable or savoury allies—are the front line against ISIS, whose sectarian poison threatens the entire region.

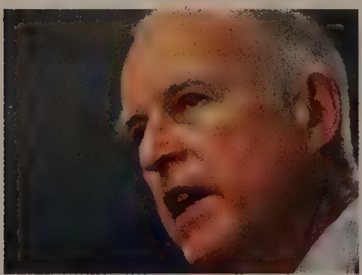
Even with more outside help, the rebels are not about to defeat Mr Assad. But turning the tide of the fighting might shift the negotiations, too. If the regime is under pressure on the battlefield, it may be more willing to negotiate a proper ceasefire, or even, if people are tired of war, Mr Assad's departure. Moreover Iran can ill afford to finance a stalemate. When it has had enough of pouring money into Mr Assad's seemingly endless conflict, it may be willing to argue for peace.

Some say that if outsiders continue to help the rebels, they will condemn Syria to even more suffering. That is possible. But the brutality Mr Assad has practised against his own people strengthens the case for trying to tip the balance of power against him, and the best way to persuade his backers to withdraw their aid is if the West has money on the table, too. One thing is certain: if either Mr Assad or al-Qaeda prevails, Syria will continue to suffer for a very long time. ■

California

The recovery

California has won breathing space under Jerry Brown. Now he should tackle taxes, debt and red tape



WHEN Jerry Brown took office as California's governor in January 2011, the Golden State was a laughing stock. Its credit was poor, its politics venomous and its fiscal deficits larger than most states' budgets. Campaigning in 2012, Mitt Romney compared California to European basket-cases like Greece. He would not do so today.

Earlier this month Mr Brown unveiled a budget with a surplus for 2013-14 forecast at $4.2 billion. In his state-of-the-state speech on January 22nd he spoke of "California's comeback" (see page 21). The state's job-creation rate is among America's best (though unemployment is still high at 8.5%), and in much of the state the housing market is reviving. Politically, Mr Brown is unrivalled; some excitable Democrats have even urged him to make a fourth run for president (although the first three, in 1976, 1980 and 1992, did not go well). Assuming that he seeks re-election in November, he should sail to victory.

The tight-fisted Mr Brown—he is not above eating food from other people's plates—has imposed a measure of fiscal discipline on his state. In 2012, to many observers' surprise, he persuaded Californians to pass Proposition 30, a temporary income- and sales-tax rise. He has strong-armed California's Democratic legislators twice: first to accept deep cuts to cherished programmes such as child care, and then, once the deficit was plugged, to curb their spendthrift impulses. Even California's nearly extinct Republicans express grudging admiration.

Yet California is not cured; it has swapped acute problems for chronic ones. Three stand out; and worryingly, Mr Brown seems little inclined to tackle any of them. First is the state's precarious tax structure. More than perhaps any other state, California relies on a small number of very wealthy people to pay for its public services. This year income taxes from the richest 1% (including capital gains) may account for one-third of the state's general fund. When the stockmarket is booming, as it is now, the state's coffers spill over. But when things turn nasty capital-gains tax revenues plummet and the treasury is starved. Mr Brown understands the harm that such volatility causes, but resists serious tax reform; instead he has proposed a rainy-day fund. This is, at best, a palliative.

California's second problem is a mountain of liabilities: some $355 billion, mostly in the form of unfunded promises to provide pensions and health care to retired public servants. Mr Brown's budget chips away at this debt mountain, but mainly at the short-term bit. CalSTRS, the teachers' pension fund, is a particular worry; by one estimate it has enough money to last only until the mid-2020s. Yet Mr Brown proposes merely to begin discussing the problem this year. Meanwhile, the CalSTRS unfunded liabilities grow by $22m a day.

The third problem is perhaps the most serious: a crisis of poverty and social immobility, particularly among Latinos (who will soon be the state's biggest ethnic group). Under the Census Bureau's "supplemental poverty measure", which includes cost-of-living adjustments and non-cash benefits, California has America's highest poverty rate: almost a quarter of its 38m residents cannot pay for basic necessities. California has always drawn in poor immigrants, but upward mobility seems to be stalling. In some inland regions unemployment is in double digits and schoolchildren struggle to read. Hardly anyone in Sacramento is even thinking about these issues.

Out of the emergency room, into rehab

Now that California's short-term crisis is over, Mr Brown should tackle its long-term problems. The tax base should be broadened: top rates should fall and sales taxes should be extended to some services. Some of the fresh revenues should be directed to measures that help the poor, such as pre-kindergarten education. The state should meet its obligations to CalSTRS in full, while finding ways to cut its long-term pension costs. And California should make it easier to start firms and create jobs. That means loosening the regulations that throttle businesses (see page 58). It can take two years to win permission to open a burger joint in California, compared with a few weeks in Texas. The California Environmental Quality Act allows almost anyone to sue to block almost any project; unions use the threat of an environmental lawsuit to blackmail employers into hiring unionised workers.

Fixing these problems will be hard—Arnold Schwarzenegger couldn't do it, for all his tough talk. Still, Mr Brown is popular and faces no serious rivals, so it is a good time to start. ■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Sale of the century

SIR – There was one very valuable item missing from your list of state-owned assets that could be privatised: wireless spectrum, or radio frequencies used by television, radar and other applications ("Setting out the store", January 11th). With the ever-growing demand for wireless devices some countries are auctioning their spectrum. But in too many places spectrum is wasted, or when it is assigned it is not done so by auction or other market mechanisms but through government command-and-control allocations.

Adopting the right approach not only raises cash for governments, it also increases the efficiency of the whole economy. The GSM Association, for example, finds that doubling mobile-data use adds half a percentage point to GDP growth per person.

PROFESSOR SIMON SAUNDERS
Director of technology
Real Wireless
Pulborough, West Sussex

SIR – I had to read almost to the end of your article to find the leasing of state assets raised as an alternative to an outright sale. Leasing works. Hong Kong's government retains an interest in most property across the territory. Regular sales of property leases provide it with cash, and significant land redevelopments often require a premium to be paid to modify the lease. This land-revenue system underpins Hong Kong's low rate, simple tax system.

The Hong Kong experience demonstrates that one of the greatest historical, fiscal follies across the developed world has been the near universal practice of disposing of absolute title to land upon sale by the state. Your Plan A, with its emphasis on sell, sell, sell, is, sadly, a hostage to a long-entrenched bad habit.

RICHARD CULLEN
Visiting professor of law
Hong Kong University

SIR – Coming from a country that is at the forefront of selling off state assets, and suffering the consequences, I was disappointed by your article. If everything is sold at the same time, the assets' mark-to-market valuation will be considerably lower. If everyone beggars their neighbour at the same time, all become considerably poorer.

SPYROS VRETOS
Athens

Protect patients, not patents

SIR – You argued that "protection should not be weakened" on pharmaceutical patents ("The new drugs war", January 4th). Drug patents protect drug-companies' profits, not patients. The industry promotes several myths to justify its outlandish prices, such as that it costs $1 billion to develop a new medicine, that private companies pay for all drug R&D costs (government and tax-subsidised institutions contribute heavily), that stronger patent protection equates to more innovation and that people in America and Europe must subsidise the rest of the world's medicines.

The truth is that pharmaceutical companies charge high prices and reap enormous profits because they can. Tiered pricing not only blocks access for most of the world's poor, it also does nothing to bring down costs. As a medical organisation providing treatment for tuberculosis, HIV and other diseases, it has long been clear to us that the current system for medical innovation is broken. Today, millions of people in both rich and poor countries are staring at a steady wave of diseases that come with age, and realise they can't afford to pay for the medicines to treat them.

The Trans-Pacific Partnership trade deal in its current form will only exacerbate this growing health crisis by allowing drug firms to extend monopolies beyond the 20 years already guaranteed under global trade rules, as well as limiting governments' ability to regulate prices.

ROHIT MALPANI
Médecins Sans Frontières Access Campaign
Geneva

Universal Jewishness

SIR – The broad range of responses to the question, "Who is a Jew?" (January 11th), opens the door to including Christians as Jews. After all, the first Christians were all Jews. They considered themselves to be so Jewish that the notion of baptising gentiles was a problem for the original Jewish Christians who believed that the Jewish messiah had come.

Amos Oz, an Israeli author, recounts the story of his aunt's conundrum: "When the messiah comes, we shall have to ask him whether he has been here before." The Jewish Bible is the Old Testament of the Christian Bible. Religious Jews and Christians who believe in the same one God have much more in common than religious Jews and Jewish atheists.

The competing answers to the question about who is a Jew suggest the template of a fertile Jewish garden producing Orthodox, ultra-Orthodox, Reform, Christian, agnostic and atheist Jews.

JOHN NAVONE
Jesuit House
Gonzaga University
Spokane, Washington

SIR – You dealt with the religious side of the question. The ethnic side is equally complicated. According to "The Invention of the Jewish People" by Shlomo Sand, an Israeli historian, most Jews are descended from various non-Jewish peoples who turned towards Judaism, including the Khazars of southern Russia, who largely converted around the year 740. Arthur Koestler explored the Khazar theory in his book, "The Thirteenth Tribe".

In addition, Mr Sand believes that the Palestinians are mainly Jews who converted to Christianity or Islam. During the centuries before the Muslim conquest of Palestine, most of the people there had become Christians. Saint George, England's patron saint, was a Christian Palestinian who probably lived in the third century. David Ben-Gurion, Israel's first prime minister, also thought Palestinians to be "lapsed" Jews, and at first he tried to convert them back to Judaism.

MIKAEL GRUT
London

On the wrong track

SIR – You were right to laud the achievements of Britain's Chiltern Railways and to suggest that it offers useful lessons for other passenger-rail franchises ("The engine that could", January 11th). But you omitted one important detail: Chiltern Railways is partly and indirectly state-owned by Deutsche Bahn. The German rail operator also owns Arriva Trains, Grand Central, CrossCountry and the Tyne and Wear Metro. Similarly, Greater Anglia, Northern Rail and Merseyrail are part of Nederlandse Spoorwegen, the Dutch state-owned railway. FirstTransPennineExpress, Eurostar, Southeastern and Southern all owe some allegiance to France's SNCF.

State-owned railways in Britain are thriving. It is just not the British state that owns them.

KEITH BRAITHWAITE
Beckenham, Kent

SIR – Perhaps one of the reasons Arriva has improved is because it no longer has shareholders to answer to and can invest over the long term, rather than worrying about the next earnings statement.

GERALD JONES
High Wycombe, Buckinghamshire

Republicans as Merry Men

SIR – Lexington is mistaken in thinking that Robin Hood should be a hero for the Democrats (January 11th). After all, did he not take money from a coercive tax collector and return it to the taxpayer?

STEFAN BENN
New York ■

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European Commission

DIRECTOR (AD14)

Directorate for "Institutional and Administrative Policies" in the Secretariat-General, Brussels COM/2014/10346

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Editor economist - Western Europe

London

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Director General

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Head of Health Division
Directorate for Employment, Labour and Social Affairs

http://www.oecd.org/els/

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Deputy Director
Environment Directorate

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SRI EXECUTIVE SEARCH

Doing it their way

MIANYANG AND SHANGHAI

The market is growing furiously, but getting tougher for foreign firms

IN THE the heart of old Shanghai is a magnificent villa that serves as the workplace of Guo Jingming, a provocative young film-maker. "Tiny Times", his recent blockbuster, follows the travails of some fashionable college girls (pictured, in the walk-in closet of one of them). Its depictions of the high life, rarely shown in Chinese films, have set social networks ablaze; they have also been attacked by the *People's Daily* for "unconditional hedonism". Mr Guo says: "So what? Materialism is neutral, neither positive nor negative." After all, he goes on, China's cosmopolitans know at any given moment what movies are playing in New York and what fashions are on the Paris runways.

China's once-drab and Mao-suited interior is not so far behind. In Mianyang, a middling city in the province of Sichuan, an enormous billboard featuring Miranda Kerr, an Australian supermodel, draped in Swarovski crystals welcomes shoppers to the Parkson shopping mall. It is one of half a dozen high-end malls in town. Luxury sales are exploding there. Local Audi and BMW dealers sell more than 100 cars each a month; Land Rover, Jaguar and Cadillac have just muscled in on the market.

Thirty kilometres (20 miles) away in Luxi, a town of 57,000 people, online shopping is hot. The first express-delivery office opened only three years ago, and handled perhaps ten packages a day; today, there are five, each handling 100 packages a day. Even 60km away, in rural Santai county where farm-workers are the customers, one modern shopping mall has sprung up and another is being built. "Customers are evolving very quickly from the low-end market to the middle and high-end," says Yang Shuiying, proud general manager of the Zizhou shopping centre.

In the 1950s and 1960s the world economy was transformed by the emergence of the American consumer. Now China seems poised to become the next consumption superpower. In all likelihood, it has just overtaken Japan to become the world's second-biggest consumer economy. Its roughly $3.3 trillion in private consumption is about 8% of the world total, and it has only just begun.

"The future of the world will be profoundly shaped by China's rush toward consumerism," says Karl Gerth, an expert on Chinese consumption at the University of California, San Diego. Although investment made the biggest contribution to China's growth last year, and although private consumption's share of output, now at 36%, fell between 2000 and 2010, that trend is unlikely to last, for several reasons.

First, boosting the people's desire to consume is a stated goal of China's leaders. Higher government spending on health care and pensions may encourage households to save less for such things. Higher interest rates may, paradoxically, discourage thrift if people reach their savings goals faster. Rising wages and an ageing population will also shift the balance towards consumption rather than saving. And although household debt is growing fast, China still has relatively little.

Besides, consumption has not fallen in absolute terms. It has, in fact, grown briskly—just not quite as quickly as the economy overall. In dollar terms, China contributed more than any other country to the growth in global consumption in 2011-13, according to Andy Rothman of CLSA, a broker. Moreover, China's official statistics understate some consumption—spending on housing, for example.

A massive push to urbanise is also under way, which should produce tens of millions of richer citizens seeking retail therapy. McKinsey, a consultancy, forecasts that consumption by urban Chinese households will increase from 10 trillion yuan in 2012 to nearly 27 trillion yuan in 2022 (see chart 1).

Fickle sophisticates

How much China spends is striking. Even more so is the way it spends. This is now one of the world's most sophisticated consumer markets, heavily skewed towards expensive goods. Local property barons are now building half the world's new shopping malls in China, many of them in smaller cities, because even punters without big incomes are becoming big shoppers. Research by IDEO, a consultancy, has ▸▸

found that many young migrant workers earning less than 5,000 yuan ($830) a month will spend a month's wages on an Apple iPhone.

That points to another difference from previous consumption booms elsewhere: with the world's largest e-commerce market at their fingertips, Chinese shoppers are online from the start. As a result, what was once a foreign marketers' fantasyland is now the world's fiercest battleground for brands.

Sanford C. Bernstein, a research firm, calls the Chinese "increasingly aspirational and conspicuous consumers" who routinely trade up to fancier labels even on staples. Newly middle-class types in cities in the interior are keen to try out new products, especially the ones they have seen on foreign television shows. Jeff Walters of the Boston Consulting Group (BCG) points out that even country bumpkins are consuming global media, thanks to the wild popularity of local online-video services. Chinese consumers, he says, were watching the latest season of "Downton Abbey" on Youku, a video-sharing website, well before it was released in America.

This passion for fashion is, in theory, good news for multinational marketers. Unlike, say, Japan, where consumers heavily favour local brands, Chinese consumers hold foreign brands in high esteem. Torsten Stocker of AT Kearney, a consultancy, observes that foreign brands are doing well in sectors they introduced to China (chewing gum, chocolate); those that have "heritage" appeal (premium cars, luxury goods) and those where local brands are not trusted, such as powdered baby milk. The world's fast-food and consumer-goods giants—Procter & Gamble, Pepsi, General Mills and so on—are also big in China, but they are increasingly dogged by local rivals. A recent study by Bain, another consultancy, found that although foreign brands still lead in some areas (biscuits, fabric-softener, bottled water), local brands are surging in others (toothpaste, cosmetics, juice).

Brand-hopping, though, is rife. Having grown up with radical economic change, Chinese shoppers are "very fickle, and hard to pin down to a strong brand loyalty", says Mintel, a market-research firm. Yuval Atsmon of McKinsey reckons that brand-switching—between Pepsi and Coke, Colgate and Crest, KFC and McDonald's—is common, "much more so than in most markets". Swarovski, the crystal-maker, has discovered that over three-quarters of Chinese customers are eager to try new brands, a far higher figure than elsewhere. A recent study by Bain found that the top five brands in ten categories lost 30-60% of their customers between 2011 and 2012.

This creates several problems. With two or three times as many brands on shelves as found in other countries, competition is ferocious. This makes advertising and marketing vital—but the cost of publicity is soaring. Also, firms that thought they enjoyed a "first-mover advantage" have discovered that their brands are now seen as stodgy or old-fashioned. Olay, a cosmetics brand, defined skin care in China for a generation—but Carol Potter of BBDO, an advertising agency, reckons that "the new generation thinks it's a brand from yesterday." She adds that whereas Louis Vuitton once symbolised good and expensive taste in China, a new generation is seeking different, subtler luxuries.

The empty suitcase

Another complication for marketers is that many Chinese shoppers have a global outlook. When previous middle classes rose to prominence in America and Japan, the internet did not exist. People could not Google the latest European fashions or check discounts on Amazon. The arrival of cheap air travel has also made the Chinese more discerning shoppers. Mr Stocker argues that these factors have "compressed the discovery process", which in Japan took 30 years, to less than ten.

The Chinese are already the world's biggest shoppers abroad, but a report released on January 20th by CLSA forecasts that the number of outbound Chinese tourists will double to 200m a year by 2020 and that their spending will triple over that time. James Button of SmithStreet, a consultancy, reports a well established piece of etiquette: "You must let friends know when you are going overseas," and take along an empty suitcase.

Many Chinese also use online shopping agents, who aggregate requests and bring back foreign goods. Sales by overseas purchase agents came to nearly 50 billion yuan in 2012, a leap of more than 80% on the year earlier; they jumped by half again last year to 74.4 billion yuan. Foreign websites, including Amazon, now offer direct delivery to China for certain products, and local e-commerce giants such as Alibaba run cross-border services.

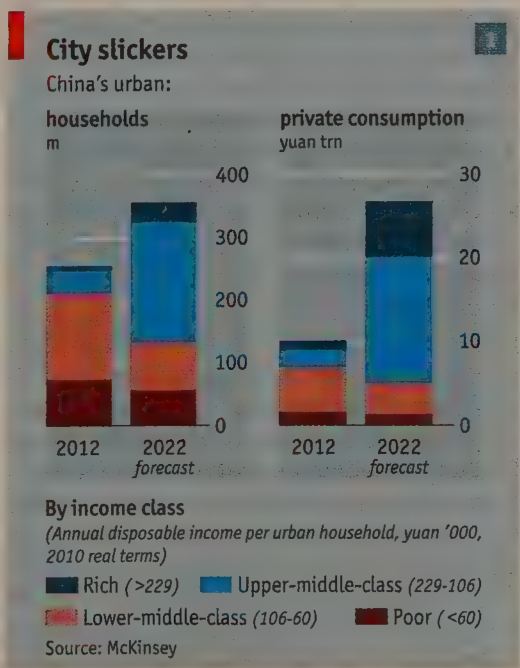
Buying overseas saves money, since mark-ups and hefty taxes are the rule in China. Many ordinary folk travel not just to Hong Kong, the most convenient spot, but to Jeju Island in South Korea (where they can visit without a visa and shop duty-free) to stock up on cosmetics that cost much more at home. Price, though, is not the only motivation. Another is to avoid the counterfeit goods so common on the mainland. Even more important, consumers say, are the variety and freshness of the products available overseas.

Nowhere is this wide-ranging urge to spend more obvious than in the market for luxury goods. Globally the Chinese are the biggest buyers of expensive items, accounting for some 29% of purchases last year (see chart 2). Some two-thirds of Chinese spending on luxury goods takes place outside the mainland; a fifth of it in Europe. (Harrods of London has seen sales to Chinese shoppers, its largest foreign contingent, increase by 50% a year since 2011.) Consistently favoured brands include Lancôme, Gucci, Audi, Rolex and Tiffany.

The Chinese are also the world's largest consumers of Bordeaux wine and cognac, though sales (like those of Moutai, a local grain alcohol) have fallen in the wake of official campaigns against gift-giving (see page 35). At Berry Bros & Rudd's bonded wine warehouse in Basingstoke, in southern England, where 4.5m expensive bottles are stored, more than 1m of those are owned by oenophiles from greater China. No longer, says the firm's chairman, should the Chinese be pictured ruining fine wine by pouring Coca-Cola into it.

Although a government crackdown on corruption has crimped mainland sales, and some luxury firms slowed down the rollout of new boutiques there last year, Coach, Prada and Bottega Veneta continued to expand. Apple expanded too; it now has more stores in Shanghai than in San Francisco, and launches new iPhones in Beijing when it does in California. Mr Button of SmithStreet thinks brands offering affordable luxury—Michael Kors and Kate Spade, say—can capture both the upwardly mobile and the "post-luxury" elites in the cities, who want less flashy brands.

In the past, the Chinese showed little interest in Western art. That is starting to change, and may change quicker with the opening of a new museum of Western art in Shanghai. The richest man in China has just paid $28m for a Picasso, though he was condemned as "unpatriotic" on Sina Weibo. Ms Potter also observes that two-thirds of affluent consumers are keen to know the history and cultural background of foreign brands. So they love to buy Piaget watches in Geneva and Zegna suits in



Milan, but reject unconventional offerings such as German watches or Japanese leather bags.

It is not only in luxury goods that Chinese shoppers are leading the way. China has become the world's biggest e-commerce market, with spending forecast to reach $540 billion next year. On Singles Day, an annual online-marketing extravaganza held on November 11th, 400m Chinese spent $5.7 billion just on Tmall, an e-commerce platform run by Alibaba; Americans, on their Cyber Monday a few weeks later, spent only about $2 billion. China is the world's biggest maker and consumer of smartphones, and will soon be the largest "mobile-commerce" market, too.

Perhaps because they distrust official information, the Chinese rely heavily on peer reviews. Research by BCG has shown that they write, and act on, online reviews of products and services far more than Westerners do. A recent study of purchases of moisturiser found that two-thirds of Chinese buyers relied on online recommendations by friends or family; the comparable figure in America was less than 40%. Millions of online shoppers follow the thoughts of Miumiu and Viviandan, leggy twins from industrial Chongqing, who started posting pictures of themselves in the latest fashions, with wry observations on trends and prices, a decade ago. Even now they post recommendations nearly every day on social-media sites such as Instagram, or on Weibo. Their likes and dislikes make or break products.

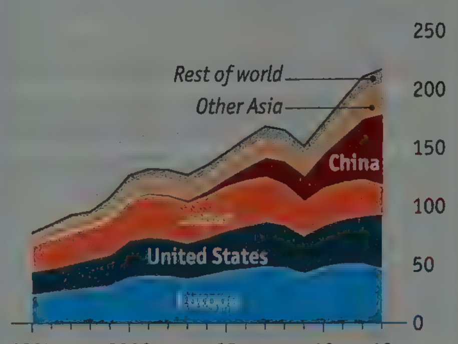
Online shoppers in the remotest parts of China often know a great deal about a global brand's attributes and pricing worldwide—which can put marketers on the back foot. Chinese consumers are no longer willing to pay a hefty premium for any old foreign brand. As they grow more discerning, multinationals are having to work harder to prove their worth—and are having to defend their brands on China's wild social media. But creative approaches can pay off.

When VF Corporation, a large American clothing firm, wanted to promote The North Face, a brand of outdoor clothing, in China, it struggled. Whereas climbers and hikers in the West relish the thought of conquering mountains alone, the Chinese generally think of outings in Nature as a spiritual escape, to be enjoyed with friends. So the firm created an online community linking amateurs to clubs devoted to outdoor pursuits. The website offers points for activity and loyalty that can be redeemed for products. Sales are soaring, and VF now has a detailed database of over half a million keen customers.

The online awareness of Chinese customers has big global implications. According to Andrew Keith, the president of Lane Crawford, cosmopolitan Chinese consumers are now setting the agenda:

Expensive tastes 2

Luxury-goods market by consumer nationality, €bn



Source: Bain

"We are not teaching them, they are teaching us." (He should know; his Hong Kong department store has half a dozen shops in greater China, 650,000 high-spending customers and, in the new Shanghai store, private suites for "Platinum VIPs" who spend 60,000 yuan or more a year.) Alexis Perakis-Valat, head of L'Oréal's China business, agrees. He believes that the Chinese market, unlike those in Western countries, is driven by young urban consumers who are demanding something new and have no taboos. He points to peculiar and distinctive products developed for this niche in China, such as a black-foam face-scrub for men, which are now being launched around the world.

We're all Chinese now

Another sign of such innovation is the reinvention of Johnnie Walker, a mass-market whisky brand belonging to Diageo, the world's biggest spirits firm, as a luxury brand in China. Keen to win over sceptical consumers more accustomed to *baijiu* (a local firewater), the firm opened Johnnie Walker House in Shanghai almost three years ago. For around 800,000 yuan, or $132,000, the company's master blender (with the delicious surname of Beveridge) will fly in and brew a special batch of Johnnie Walker precisely matched to a customer's tastes. Certain rare blends, including some bearing the marks of the Chinese zodiac, are sold only at this venue.

This effort has helped Diageo introduce its whiskies to thousands of affluent customers, who in turn have pushed the firm towards new inventions—such as blends with a much higher alcohol content—which helped its whisky revenues grow twice as fast as the industry average. The concept has been such a success that the company has opened new Houses in Beijing and Seoul, and plans others. When Diageo unveiled Odyssey, a special-edition blend, in 2012, it kicked off the global launch not in London or New York but in Shanghai.

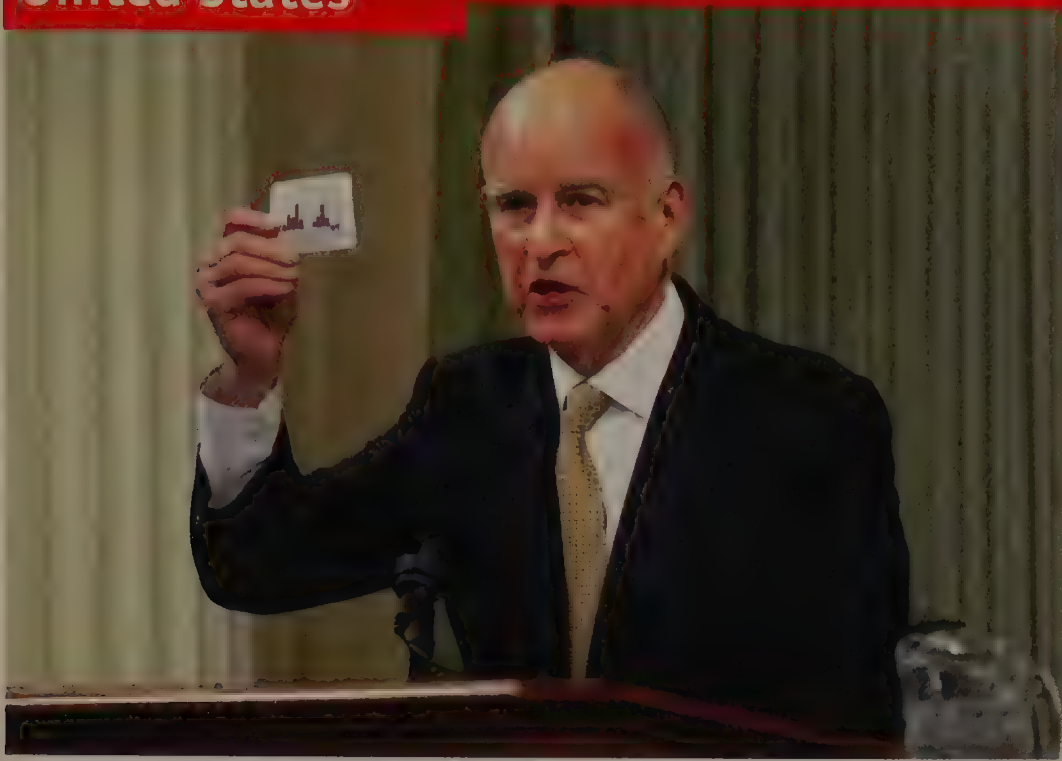
Life was simpler for foreign brands when they first came to China, reflects David Roth of The Store, an advertising agency: "It was a land grab...you just had to create awareness as quickly as possible." Now the Western invaders must not only cater to the world's most demanding shoppers, but also cope with increasing home-grown competition. Chinese firms are starting to catch up with their fancier foreign rivals. Some even aspire to become global brands.

Huawei, a telecoms-equipment giant, is making a big push into branded consumer electronics. "We have it easier than Samsung did," says Colin Giles, chief marketing officer for its consumer business, because Korean firms paved the way for global acceptance of Chinese brands. Xiaomi, a startup smartphone manufacturer in Beijing, has developed a hugely popular phone-and-app system inspired as much by Amazon as by Apple. It could become China's first global innovation powerhouse.

Leading the local pack is Lenovo, an electronics firm that previously bought IBM's personal-computer business (and on January 23rd agreed to buy its low-end server business, too). When it launched its latest Yoga tablet last year it chose Ashton Kutcher, a Hollywood star who had played Steve Jobs in a film, as its spokesman. David Roman, Lenovo's chief marketing officer, says that even a few years ago it would have been unthinkable to do a global product launch in China with a single tagline, unified advertising content and a Western spokesman. But now he thinks there is "a global consuming class", with more in common across borders than within.

That sums up the rise of China nicely. Future consumer markets everywhere are going to look more Chinese. They will increasingly be cosmopolitan, luxury-minded and online. Firms that can flourish in China are not only winning today's toughest market, but are also positioning themselves for tomorrow's. ■

He's come a long way



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California's economy

Bark if you don't like deficits

SACRAMENTO

The Golden State's recovery is real but shakier than it looks

IT WAS vintage Jerry Brown. On January 22nd California's governor (pictured) delivered a snappy state-of-the-state address, his 11th, covering climate change, healthcare, the budget, immigration policy and much more. He quoted George Santayana, a dead philosopher, then joked that his pet dog was calling on Californians to "bark if you don't like deficits!"

Interviewed in his office afterwards, Mr Brown allowed himself to veer further off-base, citing Wittgenstein, Matthew Arnold and Buddhism as he explained his governing philosophy. A lifelong Democrat, he is nonetheless wary of politicians' centralising or Utopian impulses. He frets about legislation that expresses "an intolerance of difference". He agrees that if he were European he would be a Eurosceptic.

The 75-year-old Mr Brown, America's oldest governor, is not new to this. But during his first stint in charge of California, between 1975 and 1983, "Governor Moonbeam" was distracted by grandiose schemes or his own ambitions, including failed presidential bids. He made bad appointments and ignored legislators.

The second incarnation of Mr Brown, which some date to an energetic period as mayor of Oakland (1999-2007), by contrast, has been marked by a relentless pursuit of the possible and a serene neglect of everything else. He governs without regard to ideological consistency. His first marriage, nine years ago, is said to have grounded him. Mr Brown likes to bolster his talk with quotes from Demosthenes but sometimes only the demotic will do: the governor has said he likes to "get shit done".

For the first three years of his second governorship, that has meant fixing California's books. Mr Brown's first budget, in 2011, faced a deficit of $25.4 billion. Such figures, says Darrell Steinberg, head of the state Senate, "sucked the oxygen from the room"; they made it impossible for politicians to think about anything else. Not any more: this year the state is looking forward to a surplus of $4.2 billion.

That is largely thanks to America's bull market, which boosts the income of the rich people California relies on to pay a huge share of taxes. But Mr Brown can take some credit: in November 2012 voters approved Proposition 30, a measure he placed on the ballot that hikes income taxes on the rich and nudges sales taxes up. It expires in 2018, just before Mr Brown is expected to leave office. And state government now works properly; budgets pass on a simple majority rather than a two-thirds vote, and big Democratic legislative majorities make it easy to get things done.

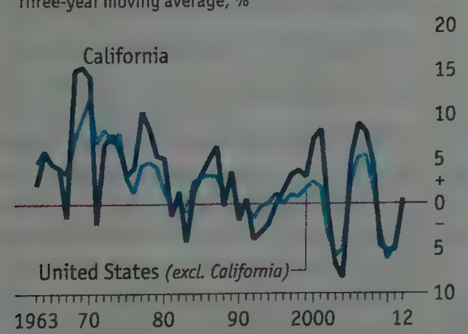
Refreshingly, Mr Brown refrains from overselling the recovery he has overseen. But the mood has lifted. Bond-rating agencies are more upbeat; on January 14th Standard and Poor's upgraded its outlook to "positive" from "stable" (though it still rates California's debt worse than any other state's bar Illinois, thanks to the "ballot-box budgeting" that ties legislators' hands.) California's reputation has improved. Less than 18 months ago Mitt Romney compared the Golden State to Greece. Today Mr Brown travels to Washington, DC dispensing good-governance lessons.

But more than most people realise, California's fortunes depend on the stockmarket. The state relies heavily on individual income taxes—this year they are ▸▸

California's yo-yo finances 1

Change in state income tax revenue as a % of state personal income

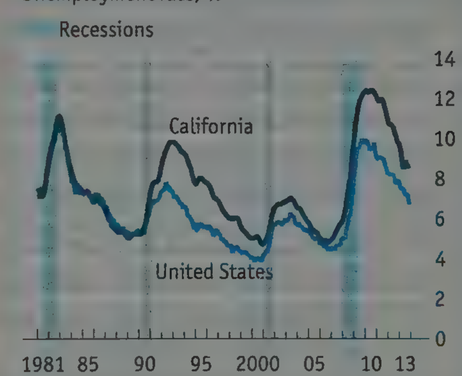
Three-year moving average, %



Sources: Bureau of Economic Analysis; Census Bureau

Jobless in the Golden State 2

Unemployment rate, %



Source: Bureau of Labour Statistics

expected to be two-thirds of general-fund revenues—and in particular, the capital gains of the rich. (Prop 30 aggravated this problem.) This makes the state's revenues highly volatile (see chart 1 on previous page); and this is why Mr Brown resists calls to open the spending spigots.

Many argue that California must reform its tax structure: sales taxes should be broadened to some services and income taxes flattened. (A commission appointed by Arnold Schwarzenegger, Mr Brown's predecessor, recommended this but was ignored.) For Mr Brown, however, the political difficulties make this "a non-starter". His alternative is a palliative: a rainy-day fund filled when capital gains are high.

In the same eat-your-broccoli vein, Mr Brown wants to start reducing California's $355 billion debt pile, a combination of short-term debt incurred in the bad years and unfunded pension and retiree health-care costs. That is good so far as it goes, but David Crane, a former adviser to Mr Schwarzenegger, worries that Mr Brown is leaving the biggest problem to a successor. California is not meeting its annual required contribution to CalSTRS, the retirement fund for teachers, let alone tackling the unfunded debt. The fund is running out of money but Mr Brown proposes only to begin discussing the problem this year.

The two Californias

California's economy is recovering: it is piling on jobs and is emerging from the huge debt overhang left by the housing collapse of 2007-08. A strong bounceback is normal for California; its booms and busts have historically been more extreme than America's. At its post-recession peak in October 2010 Californian joblessness was 12.4%, behind only Nevada and Michigan. Today it is 8.5%, still the fifth-worst in America; that is 1.6m people looking for work who can't find it (see chart 2).

Parts of California are being left behind. Many inland areas still face double-digit unemployment rates and continuing foreclosures. (Two inland cities, Stockton and San Bernardino, went bust in 2012.) The Census Bureau's supplemental poverty measure, which takes public benefits and the cost of living into account, finds that California's poverty rate, at 24%, is the highest in America. Latinos, soon to be California's biggest ethnic group, suffer disproportionately. Mr Brown mentions increased healthcare coverage and a hike in the minimum wage (to $10 an hour, from 2016), but doubts government can do much more. "'Jobs' is a very abstract term," he muses; easy to demand, hard to create.

On January 21st Neel Kashkari, a Republican who ran the bank bail-out under George W Bush, announced his candidacy for governor. His concise pitch—"Jobs and education. That's it!"—is designed to highlight Mr Brown's neglect. Yet barring a miracle Mr Brown will sail to re-election in November (he has not formally declared, but no one doubts he will). For if his fiscal stewardship has been competent, his political manoeuvrings have been masterful. He has kept a lid on spendthrift Democratic legislators. Unions and corporate interests know that nothing gets done except through him. This opens up political space.

How will Mr Brown use it? Second-term Californian governors traditionally have a rough time, says Tony Quinn, an analyst, and pitfalls abound. A drought is testing the state's ancient water infrastructure and threatening farms. A row with federal judges over prison overcrowding drags on. Fierce arguments loom over two infrastructure projects Mr Brown has championed, despite hefty price tags: a high-speed rail link between Los Angeles and San Francisco, and a water-diversion project in the Sacramento-San Joaquin Delta.

If Mr Brown can weather these challenges (and maintain good fiscal order) he may confound observers one last time: by seeking a quiet legacy. In his address he emphasised the theme of "subsidiarity": pushing power down to local officials. California is a huge and diverse state, yet decision-making is heavily centralised in Sacramento. Mr Brown has pioneered this approach, first in prisons policy and then schools funding. He is not clear about where it may next be applied—implementation of current policies will be hard enough—but says he wants to stop the "headlong rush to more state intervention". It's unusual for politicians to curtail central power, he notes. But Mr Brown is not your usual politician. ■

Food and drink

How to make men more lovable

The magic of truffles from Oregon

THEIR scent is "musky, fiery, savoury, mysterious—a hot drowsy smell, that lulls the senses, and yet enflames them," wrote William Makepeace Thackeray. Alexandre Dumas thought that truffles "make women more tender and men more lovable". That is an exaggeration, but visitors to the Oregon Truffle Festival, which starts on January 24th, are happy to pay lavishly for the experience. Tickets for packages such as "The Epicurious Gourmand" ($695 per person, including truffle-tasting and truffle-hunting with dogs) sold out in November, far ahead of previous years.

Snobs insist that Italian white and French black truffles are superior. But many foodies have noticed that the mild climate of Oregon's Willamette Valley produces a wide variety of delectable fungi: Jim Trappe of Oregon State University estimates that the state has 500 species. Since 2006 the price of some Oregonian truffles has quadrupled; white varieties, for example, are fetching $400 a pound this season. That is still less than half the cost of their European cousins, yet optimism abounds. Beaver State truffle-growers sold only about $300,000-worth in 2009 but could shift as much as $200m-worth by 2030, estimates Charles Lefevre, a mycologist and one founder of the festival.

Not to be sniffed at

In the past two years five new orchards growing European varieties have sprung up in the region. Eight years ago there were few truffling hounds "west of the Mississippi", says Mr Lefevre, but now more than 100 snuffle for truffles in Oregon. Dogs are better truffle-hunters than pigs because they are easier to train not to eat what they unearth, says Marilyn Hinds, an ex-president of the North American Truffling Society.

American technology can help truffle-producers. Symbios, a company in nearby Washington state, is developing a mapping app that will find the best sites for growing European varieties or finding wild native ones. It uses data patterns from successful *truffières* in Europe and Australia to spot areas with the perfect combination of weather, geology and altitude. The firm is also exploring the idea of a mobile "electronic nose" which uses radar technology to sniff out truffles.

Over the past century truffle production in France has dropped by 90%, as two world wars, pollution and climate change have ravaged the best growing areas. Small wonder foodies are turning to the New World.

Surveillance

New rules for spooks

WASHINGTON, DC

Barack Obama's plan for restraining his spies is balanced but vague

BEFORE committing mass murder, one of the 9/11 hijackers made a call from San Diego to an al-Qaeda safe house in Yemen. At the time, the National Security Agency (NSA) had no way to tell that the call had come from America. Haunted by such lapses, successive governments have doubled the budget for intelligence in real terms since 2001, to $75 billion in 2012. At its peak, around three years ago, America was spending nearly twice as much on intelligence as it had during the cold war. Rather than write new laws to govern the use of this bounty, Congress relied largely on old ones, drawn up when the internet was an obscure government project.

In a long, professorial and rather good speech on January 17th, Barack Obama surveyed the past 250 years of spying, paused to praise the employees of the NSA, who must be fed up with being compared to the Stasi, and then suggested what new rules ought to look like. As yet the proposals are a bit vague and some will be hard to implement, but the speech was an unusually open primer on how America should spy.

The last time revelations in the press prompted a public debate about spying, it followed disclosures that the CIA had tried to assassinate political leaders in Africa and Latin America and that the FBI had snooped on Martin Luther King. Edward Snowden, the security-contractor-turned-leaker who fled from Hawaii with a huge stash of secret data in May 2013, has not revealed anything so shocking. Still, it makes sense for Congress to update constraints placed on intelligence-gathering that were drawn up in the disco era.

The argument over spying on Americans at home has revolved around the exposure of a programme to collect telephone metadata (the records of who called whom and when, though not what they said). Though the bulk collection of metadata was authorised under the Foreign Intelligence Surveillance Act of 1978 and then bolstered by the Patriot Act of 2001, judges differ as to whether the programme is constitutional. Mr Obama claimed that a public discussion about domestic spying would have taken place without Mr Snowden's intervention. That is doubtful: without the leaks there would have been nothing much for the public to discuss. This is Mr Snowden's strongest claim to be treated as a whistleblower.

The president vowed to end "the programme as it currently exists", which means he would keep it in a modified form. At the moment the NSA sucks up the data and stores them in facilities like the one it has just built in Utah for around $1.5 billion. The most likely reform is for the government to pay private firms to store the data, just as it already pays some phone companies to turn on wiretaps.

His second proposal on domestic surveillance is to change the way National Security Letters operate. This legal instrument, which also dates from the late 1970s, allows domestic spooks to extract information about an individual from a company and prevents the company from disclosing the order to the target. At the moment such orders are kept secret indefinitely. The president proposes to end that.

When spying on people outside America, the president announced that the intelligence services will listen to the phones of friends and allies only when there is a compelling national-security reason for doing so, rather than just because they can. America is not explicit about who its friends and allies are, so this pledge may lead to "some nervous glances around the table at the next NATO summit", says one diplomat. But it has been welcomed by European allies, some of whom privately admit that there is a good deal of hypocrisy in the criticism of America's spooks by allies, since their own spies do similar things, and even a smattering of jealousy, as America's are better at it.

Mr Obama stressed that America does not spy for commercial reasons. He said that the leaks have revealed "methods to our adversaries that could impact our operations in ways that we may not fully understand for years to come." If so, that strengthens the argument that Mr Snowden should be treated as a traitor.

Americans do not mind if their government spies on foreigners, polls suggest. Many don't mind if it collects data on Americans either. Research by the Pew Centre shows support for the NSA's surveillance has dipped to its lowest level since the question was first asked: 53% disapprove; 40% approve. When there is a Democrat in the White House, Democrats are much keener to support what America's spies are doing, while Republicans become more suspicious; and vice versa. With public trust is so fickle, the intelligence services require an updated set of rules. Alas, a Congress facing mid-term elections this year may not be able to agree on what those rules should say. ■

Virginia politics

Of diet pills and posh shoes

RICHMOND

Bob McDonnell, an ex-governor, is indicted for corruption

VIRGINIA'S perfectly coiffed governor, Bob McDonnell, opened his term four years ago by delivering the Republican response to President Barack Obama's state-of-the-union message. No sooner had he ended his term, this month, than he found himself accused of corruption by Mr Obama's Justice Department. He and his wife Maureen, a former Washington Redskins cheerleader, were hit with a 14-count federal criminal indictment alleging that they took thousands of dollars in gifts and loans from a flamboyant executive, Jonnie Williams. Mr Williams was seeking state favour for his "wonder product", a dietary supplement derived from tobacco, which is more or less Virginia's state plant.

The indictment, the first handed down to a Virginia governor in modern times, brims with details of designer shoes and ▸▸

accessories showered by Mr Williams on Mrs McDonnell, holidays for the McDonnell clan at Mr Williams' lakeside pile, golf outings at his club, use of his white Ferrari roadster, a Rolex for the governor, five-figure cheques for the weddings of two McDonnell daughters, and cash loans on easy terms to keep afloat the McDonnells' ill-timed property investments.

If convicted, the governor and his wife could face decades in prison and fines of up to $1m. He denies all the charges, arguing that he did no more for Mr Williams's firm than previous governors have done for others. Virginia is a state known for its probity. It is also known for its admiration of corporate bigwigs.

Until he was beset by this scandal nearly a year ago, Mr McDonnell was a rising star in the national Republican Party. Many thought him a welcome alternative to his party's rigid culture warriors: he talked more about schools and roads than gays or abortion. Voters liked him, and elected him in a landslide in 2009. He was floated as a running-mate for Mitt Romney in 2012, and recently headed the Republican Governors Association.

Even his apostasy on taxes seemed a selling point. Having promised never to raise them, in early 2013 he persuaded the legislature to provide $6 billion (in higher sales taxes and vehicle fees) for Virginia's crumbling highways. This was spun, to mixed effect, as an example of a conservative Republican thinking afresh and finding common ground with Democrats.

That achievement was soon overshadowed by the steady drip of damning newspaper reports about Mr McDonnell's relationship with Mr Williams. The businessman is depicted by federal investigators as keen to affix to his wonder product the imprimatur of respected scientists and first-rank research universities. The governor, he seemed to think, could be a conduit to both.

As "Giftgate" unfolded, it badly damaged the Republican brand in Virginia. Mr McDonnell became a pariah. He was virtually ignored, during the campaign to succeed him, by his party's nominee, Ken Cuccinelli. So bad was the smell that it helped lift a Democrat, Terry McAuliffe, to victory.

The scandal is now forcing the legislature, for the first time in two decades, to consider strengthening Virginia's porous and inexact ethics laws. These laws largely allow politicians to police themselves. For example, they do not have to disclose gifts from a relative or personal friend—and the law leaves it up to the official to determine whether a benefactor is, in fact, a friend. Mr McDonnell clearly thought Mr Williams was. It was behind that screen, the Justice Department alleges, that the scheme to assist Mr Williams was carried on—and a promising political career was probably snuffed out. ■

An obstreperous obstetrician

Dr No retires

WASHINGTON, DC

Tom Coburn, the unclubbable senator from Oklahoma

AS RETIREMENTS and primary contests have chipped centrists away from Congress one by one, usually to be replaced with an ideologically purer lawmaker, voting in the House and the Senate has become drearily predictable. Know where someone stands on gay marriage and you probably know what he thinks about tax rises and Obamacare. Tom Coburn, who announced his retirement from the Senate on January 16th, after a recurrence of the cancer he has been fighting for a while, was pleasingly hard to read.

Mr Coburn has been a hero to conservatives for opposing abortion, denying climate change, opposing gun control and attacking wasteful spending. He also opposed George Bush's tax cuts because they were unfunded, has a warm relationship with Barack Obama, who is often suspected by lawmakers of being incapable of such a thing, and put his name to bipartisan compromises on eliminating the deficit and reforming immigration.

"I love the man," Mr Coburn once said of Barack Obama, "[...] I don't want him to be president." Most careers in conservative politics, where purity is highly valued, would not survive a public declaration of love for the president, let alone a professed willingness to raise taxes to plug the deficit. Mr Coburn got away with it because he never seemed to care about his career very much.

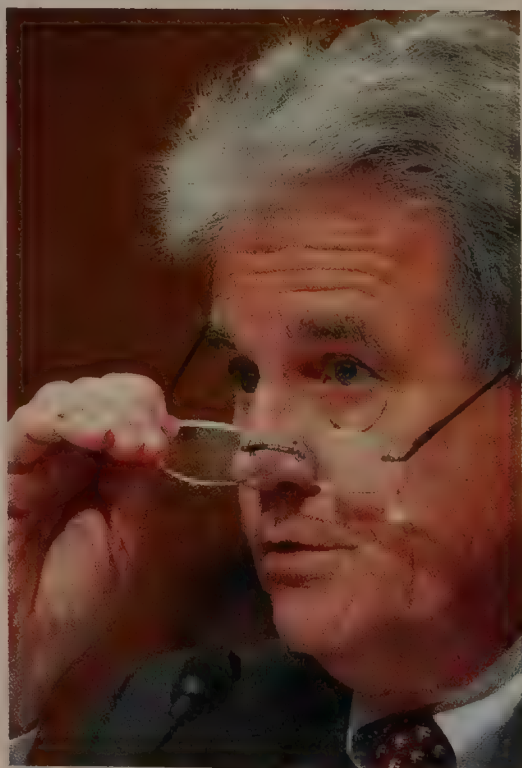
Candidates who fight election to national office are obliged to claim to their electorates back home that they are not like everybody else in the capital. Mr Coburn made a more credible Mr Smith in Washington than most. This was partly because he is a doctor from a small Oklahoma town, albeit one who had once enjoyed a successful career as a businessman in Virginia. When he first arrived in the House, Mr Coburn became known for producing slides on Capitol Hill showing gruesome examples of sexually-transmitted diseases. It is also because Mr Coburn set himself a limit of three terms in the House and then two in the Senate, an act of self-denial which he says kept him from becoming an insider and freed him to say what he wanted.

What he most wanted to say was that the government wastes taxpayers' money. "[He] is like an imam at a pig roast: He sees pork everywhere, and he doesn't like it," mused Dana Milbank of the *Washington Post*. His latest annual publication on government waste singled out $297m spent on an unused army blimp and $432m on new air force planes that will not be flown, as well as less expensive absurdities like the $3m NASA spent studying Congress.

He hated subsidies for rich farmers. "It is the height of hypocrisy for politicians to complain about tax rates for millionaires while ignoring spending programmes for millionaires," he told the *Oklahoman*. He was often reminded that these items were dwarfed by the funding gaps faced by the big entitlement programs, Social Security, Medicare and Medicaid, but thought cutting waste would be a good place to start.

He attempted to hold up funding for the relief of Hurricane Sandy because the bill contained millions of dollars for fisheries thousands of miles away. He was the fiercest critic of the earmark in the federal budget to build a "Bridge to Nowhere" in Alaska in 2005, arguing that the money would be better spent on repairs following Hurricane Katrina. Mr Coburn's attacks on federal profligacy won him some friends but lost him plenty as well. The Senate ethics committee hounded him—absurdly—for the "conflict of interest" of delivering babies back home in Oklahoma in his spare time, though he charged only enough to cover his expenses.

Partly as a result of Mr Coburn's efforts, congressional earmarks were prohibited in 2010. Not everyone is pleased about this. One of the many reasons that it is hard to get bills through Congress is that it is no longer possible to buy the votes of hostile members with pork. Mr Coburn would consider this objection to be just another defence of business as usual, a recipe for running up yet more debt to be paid back by his grandchildren, with whom he plans to spend his remaining time. ■



The man who killed earmarks

Laws about life and death

Brain-dead and pregnant in Texas

AUSTIN

A rare case rouses passions among the pro-choice and pro-life alike

IN NOVEMBER Erick Munoz lost his wife, Marlise. She woke up in the middle of the night and went to check on their toddler son, who was crying. Mr Munoz found her unconscious on the kitchen floor of their house in Crowley, Texas. She was, Mr Munoz says, pronounced brain-dead at the John Peter Smith Hospital in Fort Worth, the apparent victim of a pulmonary embolism.

That is where she remains, silent but the centre of a howling controversy. Marlise Munoz was a paramedic, and had considered her end-of-life wishes. Her bereaved husband (a fireman) and her parents all say that she did not want to be kept on life-support in such a situation, and that they, the family, want the hospital to let her go. On the night she collapsed, however, she was about 14 weeks pregnant. A 1999 Texan law says that if a terminally ill patient is pregnant, "a person may not withdraw or withhold life-sustaining treatment." The hospital says it had no choice but to "follow the law", and keep her heart beating and her foetus alive.

Whether they are, in fact, following the law is furiously disputed. Her family maintains that she is brain-dead. The hospital has not released her medical records, but several lawyers have reviewed them and confirmed the family's account. Some legal experts argue that this particular bit of state law should never have been invoked, because the woman is not a patient: she is dead. Erick Munoz shares that view. On January 14th he filed a civil suit asking the county to order the hospital to stop its "life-sustaining" treatment, which is, as the suit puts it, "mutilating, disturbing and damaging Marlise's deceased body".

Tom Mayo, a law professor at Southern Methodist University in Dallas who was part of the working group that drafted the 1999 law, explains that the group did not start from scratch. Texas already had several laws related to end-of-life matters, including the pregnancy exclusion. The intent, he reckons, "was to continue the state's policy on protecting foetuses, even if it meant disregarding choices made by competent, autonomous women."

More than 30 states have similar provisions in their own laws. The most likely reason why the issue has not made headlines before is that such cases are extremely rare. A 2010 review of several countries by researchers at the University of Heidelberg found only 30 reported cases of brain death during pregnancy since 1982. Terminal illness is more common. A woman with advanced cancer, however, can still make decisions about her pregnancy; a brain-dead woman cannot.

Right-to-life groups support the hospital, though guardedly, aware that Marlise Munoz's survivors are in a horrible position. Erick Munoz has been spending time at the hospital with his wife. Her parents are helping to mind their grandson. Mr Munoz's fellow-firemen are raising money to help with medical expenses. The plan seems to be that unless the courts intervene, doctors will deliver the baby by Caesarean section after another month or so. How the baby will fare, after the incident that killed its mother, is unclear. ■

Baby-boomers on skis

Old, cold and splurging gold

COPPER MOUNTAIN AND SQUAW VALLEY

Who will replace the grays on trays?

THE Over the Hill Gang does not sound menacing. But the members of this Colorado-based skiing group for the over-50s, and their peers, now dominate the slopes. With their new hips and costly kit, baby-boomers have propped up America's ski resorts for longer than anyone expected. The average age of customers rose from 33 in 1997-98 to 39 last season, according to the National Ski Areas Association, and the share over 55 has risen from 7% to 17%. "Grays on trays" (as one snowboarding outfit calls them) ski more than youngsters, since they have more free time and money. But they must one day bomb their last bumps, so the industry needs new blood.

To hook younger skiers, several states now offer free ski passes to pupils. For example, most of New York's ski areas have begun allowing third- and fourth-graders from anywhere (even overseas) to ride its slopes free—as long as they come with a paying adult. New designs for skis and terrains make it easier for beginners to find their balance, says Scott Anfang, a snowboard instructor at Steamboat in Colorado.

January is "Learn to Ski and Snowboard Month", a nationwide scheme to lure beginners with bargain packages and cheaper lift tickets. Since it began, in 2009, the programme has spread to include more than 300 resorts (out of 478 in America). Anyone can take part, but the real target is young people. A ten-year-old is more likely to return to the slopes year after year, and so will spend perhaps $73,000 over a lifetime, whereas a new 25-year-old skier will probably spend less than $20,000, according to SnowSports Industries America, an industry group.

Skiers who give up tend to blame a lack of time and a surplus of children. Many—particularly women—say they would be more likely to ski again if it were easier to include (or guiltlessly dispatch) their sprogs. Resorts are becoming more family-friendly, offering more lessons and other activities, such as snow tubes and mini-snowmobiles. Squaw Valley in Lake Tahoe has introduced a yoga studio, a play zone and a ski-in/ski-out Starbucks. Many of these features can also be enjoyed without snow; which is handy in drought-struck California.

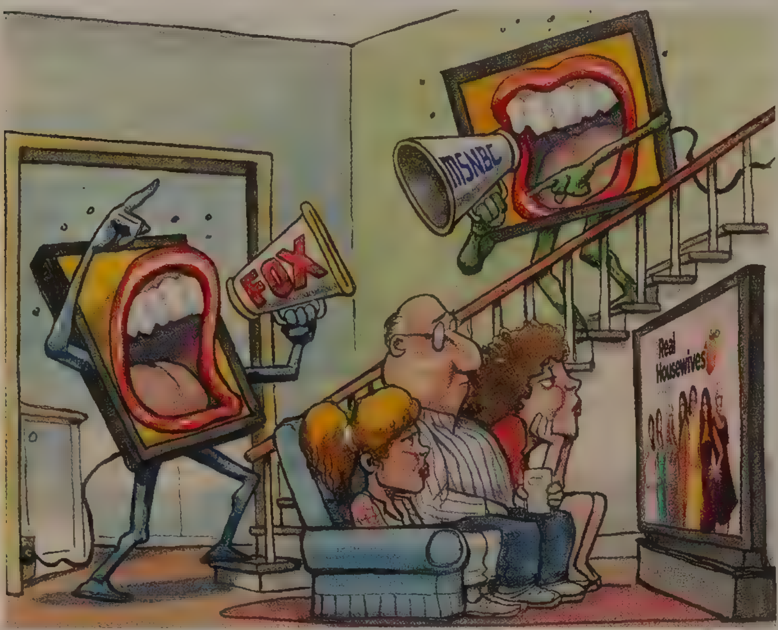
Some ski resorts are trying to become year-round destinations. A federal law introduced in 2011 allows resorts on public land to introduce attractions that are not environmentally destructive, so they have been busily adding bike trails, zip lines and climbing walls, but not golf courses or amusement parks.

Rich rewards will go to anyone who can figure out what the Millennials want. Some try to reach them via their gadgets. EpicMix, an app created by Vail Resorts, tracks how many trails and vertical feet users cover (though only on Vail properties) and lets them compete with others and share stats on social-networking sites.

Another gimmick that is proving popular, particularly among young men, is the terrain park, where snowboarders and, increasingly, "free-skiers" (who ride on shorter, more manoeuvrable skis) can perform tricks to an audience of peers, and share their feats online. Most American ski resorts have at least one park; some have more. Powdr Corporation, which owns nine ski areas in America, has a "barn" full of foam pits, trampolines and half-pipes, where people can practise their daredevil jumps. With such a soft landing, even the old-timers may give it a try. ■

Lexington | What does the Fox say?

Cable news is less to blame for polarised politics than people think



CHRIS CHRISTIE should be too busy to second-guess the judgments of cable-TV news. His latest term as Republican governor of New Jersey began on January 21st. Months of fund-raising lie ahead, as chairman of a Republican committee supporting governors' election campaigns in 36 states. A darling of his party's business-friendly Establishment wing, he is a putative contender for the White House in 2016. If all that were not enough, he suddenly finds himself battling multiple allegations of petty bullying. Mr Christie, a swaggering giant of centre-right politics, has suffered no direct hits. But just now—like King Kong swatting at biplanes—he is struggling to keep his balance.

Mr Christie denies wrongdoing. His aides reject recent claims by the Democratic mayor of Hoboken, who says she was told that post-Hurricane Sandy aid might not flow to her city unless she backed a development scheme favoured by the governor. Carl Lewis, a former Olympic athlete, says Mr Christie tried to "intimidate" him in a politico-sporting dispute. The governor has apologised for just one case, after underlings—he insists without his knowledge—ordered a bridge partly closed, apparently to snarl traffic in a town deemed disloyal.

Amid all this, the governor's spokesman somehow found time to issue a long, extravagantly detailed denunciation of MSNBC, a lefty cable news channel which has been especially tough on his boss. The statement called MSNBC's reporting "almost gleeful", grumbled about presenters comparing Mr Christie to Richard Nixon and accused the channel of devoting excessive airtime to the governor's woes.

The Left is just as irked by Fox News, a conservative outlet launched in 1996. Even Barack Obama, an exceedingly self-possessed man, was rattled by coverage of his first months in office, calling Fox News a "megaphone" devoted to attacking his administration. A new, hostile biography of the channel's head, Roger Ailes, calls him a man of almost unrivalled political power, who has "divided a country".

In part, self-interest explains the hyperbole. Mr Christie has prospered in a largely Democratic state by governing as a fiscal conservative who is moderate on some issues (gun control, immigration and—after Hurricane Sandy—working with Mr Obama). Conservative purists duly distrust him. But they hate MSNBC and the "lamestream media" still more. That makes it shrewd for the governor to portray himself as the victim of an ambush by fact-twisting lefty hacks. As for Gabriel Sherman, Mr Ailes's breathless biographer, he has a book to sell.

For many, the hysteria is sincere. Ask Democrats why they struggle to win support for such policies as Obamacare, immigration reform or action on global warming, and they often blame Fox News for misinforming voters. Noting the role that Fox News played in promoting the anti-government Tea Party in 2009, many accuse the channel of helping extremists seize control of the Republican Party. Among Republicans, it is an article of faith that America is, deep down, a conservative country, and that if elections do not always reflect that truth, it is because the Right is denied a fair hearing by the elite media, which hides a deep liberal bias beneath pious talk of objectivity.

Plenty of pundits fret that too many Americans inhabit partisan echo chambers, hearing only news that confirms their prejudices. They point to evidence that the country is more divided, and that such changes coincide with the rise of cable TV and the internet. Over the past 30 years of presidential elections, the number of swing states has fallen sharply (just four states were really close in 2012), and the number of landslide states has soared. Ticket-splitting districts—which back one party for the White House but the other for Congress—have become as rare as hen's teeth. Though voters' views of "their" party have not much changed, more say they fear or are enraged by the other one.

Those same years saw cable TV spread nationwide (talk radio boomed too, notably after the Reagan-era abolition of rules requiring political "balance" on air). In polls, well over half of Americans report watching cable news at least sometimes. Those channels are growing shoutier. The Pew Research Centre, a think-tank, found Fox News more negative about Mr Obama in 2012 than four years earlier, and found similar changes in MSNBC's coverage (just 3% of its Mitt Romney stories were positive).

Sean Hannity v "The Real Housewives of Atlanta"

Yet those who blame Fox and MSNBC for dividing the country should check their sums. Markus Prior of Princeton University has dug into data, much of it unpublished, from ratings companies who remotely track viewing habits in sample households. His conclusion is that Americans fib about what they watch, and that large majorities simply shun cable news. Perhaps 10-15% of the voting-age population watch more than 10 minutes of cable news a day, a share that rises modestly before exciting elections. For most individual news shows (including hybrids like Jon Stewart's satirical "Daily Show"), 2m viewers counts as a wild success. That is the equivalent of 0.8% of voting-age Americans.

In 1969 half of American homes tuned into the big networks' evening newscasts (it helped that their cautiously high-minded, eat-your-greens reporting was all there was to watch at dinnertime). The advent of cable gave those bored by politics somewhere to flee. If obsessives now dominate political debate, Mr Prior suggests, the real culprit is not Fox but choice. Fiery partisans continue to watch lots of news, but other Americans prefer football or "The Real Housewives of Atlanta".

The changes are not over. News-lovers are greying (hence all those arthritis ads on TV). For several years most young Americans have told Pew that they do not "enjoy" following news, in any medium. They don't seem to be changing their minds as they age. In time, politicians may be begging for any coverage at all. ■

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Latin America and Spain

Shoe on the other foot

MADRID AND MEXICO CITY

Spain's crisis and Latin America's cash prompt a gradual rebalancing of relations

CHANGES in relationships can be hard to take. The economic bond between Latin America and Spain, its biggest former colonial power, is shifting as the region's economies mature. Despite some ruffled feathers, the evolution is positive.

After two decades in which Spain amassed assets worth €145 billion ($200 billion) in Latin America, last year was the first in which Latin American companies spent more on acquiring their Spanish counterparts than the other way around (see left-hand chart). Dealogic, a data provider, says Mexican firms were the biggest investors, putting money into Avanza, a bus company, and (with a Chinese firm) Campofrío, a meat processor.

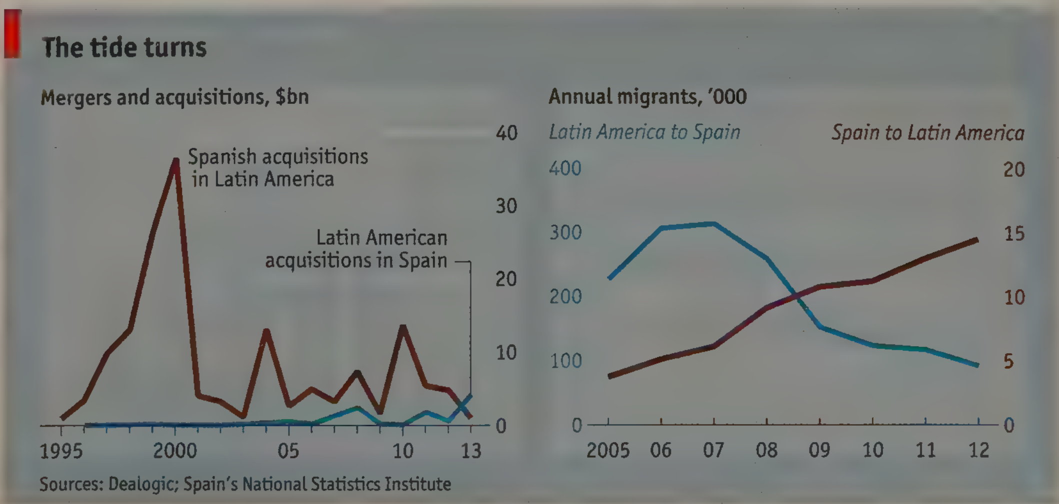
Mexican investors have also bought stakes in Banco Popular and Sabadell, two Spanish banks. Carlos Slim, Mexico's richest man, has a variety of business ties with La Caixa, a Catalan savings bank. Banesco, a Venezuelan bank, recently bought NCG, a Galician bank, for €1 billion. A Colombian financier has pledged to invest in a Spanish property firm called, in a nice twist, Colonial.

Linguistic and cultural affinities attract Latin American investors. Enrique Alberola of the Bank of Spain, the central bank, sees parallels with Spain's own modernisation path. Spanish firms such as Telefónica, a phone company, and Santander, a bank, cut their teeth in Latin America. Between 1993 and 2000 almost half of Spanish foreign investment went there. These firms then used their scale and experience to make big investments across Europe. Likewise, Latin America's *multilatinas* have been investing regionally for years. Now they are looking to broaden their horizons via Spain.

The amounts flowing from Latin America to Spain are still small; most of the investment on both sides is by big firms. But, in a new departure, Latin American development banks have begun extending credit to Spanish firms. Enrique de la Madrid, head of Bancomext, Mexico's export-development bank, says that in 2013 the bank had outstanding loans of more than 3 billion pesos ($225m) to Spanish companies invested in Mexico, and 4.5 billion pesos to Mexican firms operating in Spain. For both sides, travelling across the Atlantic is a "good diversification strategy," says Mr De la Madrid. "The Spanish have been doing it since the Conquest."

Such language is a reminder of the relationship's historical baggage. Sensitivities can spill into the open. Witness the dispute between a Spanish-led consortium contracted to expand the Panama Canal and the Panama Canal Authority (PCA). The consortium, headed by Spain's Sacyr with Italian, Belgian and Panamanian partners, has threatened to stop work on the $5.25 billion project unless the PCA pays for big cost overruns (a deadline to settle the impasse came and went this week). "How do you think we Panamanians feel?" thundered the PCA's boss, Jorge Quijano, in an interview with *El País*, a Spanish newspaper. "They still think we wear feathered headdresses." The dispute has raised questions about some Spanish firms' ability to handle big contracts.

Spanish firms have been bruised, too. In 2012 the Argentine government expropriated the 51% stake of Repsol, a Spanish oil firm, in YPF, another oil firm. Pemex, Mexico's state oil company, also tussled with Repsol, in which it has a stake, pushing the reluctant Spanish firm to accept in ▸▸



principle a $5 billion compensation offer for its YPF stake.

Despite these hiccups, Latin America has acted as a shock absorber during Spain's slump. Brazil accounts for almost a quarter of Santander's global profits, and Mexico two-fifths of profits at BBVA, another Spanish bank. New sources of credit like Bancomext are welcome in a country with banks as weakened as Spain's. Mr De la Madrid says Latin American investment in Spain should be seen as a helping hand.

Latin America also offers jobs to young Spaniards. The number of Spaniards heading to Latin America is rising; flows the other way are falling (see right-hand chart on previous page). Of émigrés from Europe, those from Spain are the largest group. Spain's economy is now starting to recover, but the relationship will keep changing. At Christmas Campofrío launched a tongue-in-cheek advertisement called "Make yourself a foreigner", which sought to dissuade Spaniards from emigrating. By then it was already half-owned by Mexicans. ■

Venezuela's labour market

Labour's love lost

CARACAS

The regime has contrived to make both bosses and workers unhappy

NICOLÁS MADURO, a former bus driver and trade-union activist, is fond of styling himself "Venezuela's first worker-president". Like his mentor and predecessor, Hugo Chávez, Mr Maduro believes the primary role of the labour movement is to help the regime crush capitalism and install "21st-century socialism".

Employers predictably bemoan the rigidity of the labour market, saying that it cripples business and leaves Venezuela trailing in terms of productivity. But as the country prepares for a visit by the International Labour Organisation (ILO), the bosses are not the only ones complaining. Many workers are not happy either.

A plethora of ostensibly pro-worker decrees have been passed in recent years, culminating in a 2012 labour law known as the LOTTT. The law includes a virtual ban on dismissals, a shorter working week and improved holiday and maternity benefits. In December Mr Maduro renewed a decree, in force for the past decade, which makes it almost impossible for private firms to fire workers. Under the LOTTT, job security is virtually guaranteed after the first month. The result, employers say, has been absenteeism rates ranging from 15% to 40% of the workforce, depending on the industry and the time of year. Under these circumstances most firms are unsurprisingly reluctant to recruit.

Luis Alfredo Araque, who chairs the labour commission of the main employers' federation, Fedecámaras, says businesses are being bankrupted by unproductive workers: "I know one American company here, which is paying 250 workers to stay at home rather than come to work and cause trouble." Labour-ministry inspectors refuse to approve dismissals, whatever the grounds, leaving many employers with no choice but to bribe workers to leave.

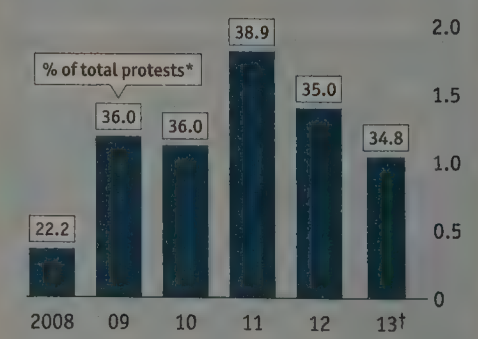
But employers are not the only ones who plan to present their grievances to the ILO delegates. The unions also want to have their say. In practice, only the private sector is held to the law; the government seems less keen on employees' rights when it is the employer. Hundreds of labour activists have been prosecuted for taking industrial action, especially against state-controlled firms. Rubén González of Sintraferrominera, an ironworkers' union, spent 17 months in detention for organising a strike in 2009; he still has to attend court hearings monthly. Iván Freites, an oil-workers' union leader, was sacked in December after disputing the official account of a refinery fire in 2012 that left over 50 people dead.

As well as briefing the ILO on cases like those of Mr González and Mr Freites, labour representatives will also argue that a new, central register of trade unions violates the ILO's rules and threatens to leave most unions with no legal status. That suits the government, which prefers to raise wages by fiat, presenting salary increases as the product of its own largesse rather than the result of negotiations with workers' representatives. "If you want to hold a trade-union election," says Pablo Zambrano of Mosbase, an alliance of grass-roots unions, "you have to fill in a form and take it to the government." By delaying elections, sometimes for years, the regime can deny the legitimacy of union officials.

A majority of collective agreements governing pay and conditions in the public sector—around 350 at the last count—have expired. Most are not being renegotiated. According to Mr Zambrano, over half the country's 2.6m public-sector workers are now not covered by these deals.

Workers' paradise

Venezuela's labour disputes, '000



Source: Espacio Público

*All peaceful public demonstrations †To October 31st

Labour disputes have been running at elevated levels since the financial crisis in 2008 brought the economic good times to an end (see chart). With inflation running at 56% in 2013 and widespread shortages of basic goods, even the government—which blames these ills on an "economic war" allegedly waged by the private sector—admits productivity must rise. How to achieve that is another matter. The World Economic Forum ranks Venezuela 134th out of 148 countries for competitiveness. An inflexible labour market is part of the reason for its feeble score. It is also a hard thing for a worker-president to reform. ■

La Salada

Stall stories

BUENOS AIRES

Inside South America's largest informal market

IT IS five o'clock in the morning, but shoppers in La Salada market in Buenos Aires are already going home. They drag rubbish sacks full of T-shirts, trainers and pirated DVDs across the car park to board waiting coaches. Some have come to stock their shops, others to fill their wardrobes. They started shopping when the market opened at 3am, and have travelled from as far as Neuquén, a Patagonian city 15 hours away.

La Salada is thought to be South America's largest informal market. Around 30,000 wire-mesh stalls spill out of three warehouses in an unsavoury neighbourhood on the outskirts of the capital. Its administrators reckon that on Tuesdays, Thursdays and Sundays, when the market is open, more than 250,000 shoppers browse its stalls. Tens of thousands of people help keep La Salada running—selling, protecting, cleaning and supplying the market. At the Punta Mogote warehouse, where most stalls are underground, so many people faint that an ambulance is kept on site.

Hard numbers are impossible to come by but administrators estimate that vendors sell 150m-300m pesos ($22m-$44m) of goods every day La Salada is open. According to Jorge Castillo, who manages Punta Mogote, vendors pay up to $100,000 in cash for a stall measuring four square metres—more than they would for space in a former Hermès store on Avenida Alvear, the main shopping street in Buenos Aires.

La Salada has its murky side. In one bizarre case a man who bought a poodle puppy at La Salada claimed he was duped into bringing home a fluffy angora ferret on steroids. Nacho Girón, a journalist who ▸▸

has written a book on the market, insists that this story is itself one of La Salada's fakes. Piracy is undeniably rife. Stalls in Punta Mogote sell copies of Tommy Hilfiger shirts for 110 pesos. At street level, vendors hawk Nike knock-offs and flimsy "Ray-Ban" sunglasses.

Mr Castillo is engagingly open about the dubious merchandise sold by some of his vendors. La Salada's merchants, he acknowledges, may not follow the rules when it comes to intellectual property "but this is Argentina. Nothing is ever just black or white."

Taxes are certainly a grey area. All shopping is done in cash, leaving ample room for fudging the accounts. Tax officials have trouble enforcing their writ: in one 2009 tax raid vendors from Punta Mogote lobbed thousands of eggs at agents until they fled. The police are reckoned to be more complicit, demanding bribes in exchange for ignoring contraband goods.

Given La Salada's popularity among Argentina's poor, the government has long understood that attacking it would be politically risky. According to Mr Girón's book, Néstor Kirchner, a former president, privately described the market as "a social phenomenon of Argentina in crisis". "Shoppers love us because we allow them to buy what they need and also have a little left over to treat themselves," says Mr Castillo. "Vendors love us because we don't take their hard-earned cash."

That ethos stretches back to the market's foundation in 1991 by a bunch of struggling Bolivian clothing producers. Sick of being exploited by factory bosses who paid them poorly and late, the manufacturers gathered enough money to buy the site of abandoned thermal baths. The market was an immediate hit. Mr Castillo, who had been a women's shoemaker, began buying stands in La Salada's second warehouse in 1994, before leading the way in opening Punta Mogote in 1999.

Ferreting out the bargains

Competition is at the heart of La Salada's model. When the market was founded the Argentine peso had just been pegged to the dollar, making imported textiles far cheaper than Argentine-made fabrics. To succeed, vendors had to cut prices right back. Competing with imports is no longer a problem, thanks to currency controls and heavy taxes: the government's latest wheeze is to require shoppers to pick up goods bought from foreign websites at customs offices so taxes can be collected. But with so many stalls next door to one another, competition at the market remains cut-throat. "The good and the bad of Argentina are embodied by La Salada," Mr Girón reflects. "It is at once a display of Argentine creativity, intelligence, resilience and grit, and an exhibit of Argentine cunning and corruption." ■

Brazil's rolezinhos

The kids are all right

SÃO PAULO

Youngsters gathering in shopping malls want attention, not political change

THE Shopping Metrô Itaquera, a gleaming mall amid the *favelas* (shantytowns) of eastern São Paulo, gained notoriety on January 11th, when the police used rubber bullets and tear gas to disperse a rowdy crowd of 3,000 youths. The youngsters were participating in a *rolezinho*, a gathering of tens, hundreds, and sometimes thousands of youngsters which is convened via social networks.

Mall-owners and shopkeepers have reason to be wary of throngs of adolescents. A few *rolezinhos* have led to muggings and robberies. Two shopping centres in Rio de Janeiro remained closed on January 19th to forestall planned *rolezinhos*. The Western media has dubbed them "flash mobs". But most do not end in Itaquera-like chaos: the word's true meaning is closer to "little outing". And theories that *rolezeiros* are class warriors or *favela*-dwellers tired of the country's veiled racism are wide of the mark. "Their battle-cry is not 'Less oppression!'" says Renato Barreiros, who has directed a documentary about them. "It's 'More adidas!'"

The point of a *rolezinho* is "to hang out, chill, buy nice things, meet people," explains Vinicius Andrade, a 17-year-old from Capão Redondo, a *favela* in western São Paulo. Vinicius counts 18 big *rolezinhos* in the city so far. He has taken part in all of them and helped organise a few, drawing some of his 89,000 Facebook followers. His 15-year-old girlfriend, Yasmin Oliveira, a *rolezeiro* sweetheart with 94,000 fans of her own on the social network, says that shopping centres make good meeting-places because they are safe—an important consideration in a crime-ridden city.

There are few other public venues for kids, especially in poorer neighbourhoods, says Gustavo Fernandes of the Fundação Getúlio Vargas, a business school. (Mr Fernandes wooed his future wife not in a public area, but at Itaquera.) Avenida Paulista, São Paulo's main thoroughfare, sports a single bench. Itaquera and the eight districts abutting it are home to 230,000 15- to 24-year-olds and have a total of 12 cultural centres between them; in the city centre 65,000 youngsters have 33 venues to choose from.

As well as air-conditioning, shopping centres also confer something no open-air space can: status. Sashaying around his local mall in a branded singlet and bermudas, with a pair of 400-reais ($170) shades perched on a baseball cap, Vinicius confesses to spending 800-1,000 reais a month on clothes and accessories, most of what he makes as a helper at a local Adventist church. Yasmin spends about half as much, depending on how generous her single mother, Maria Silva, is feeling.

Just 8% of Itaquera shoppers enjoy a monthly income in excess of 2,780 reais. Some *rolezeiros* support their flashy lifestyle by reselling outmoded attire to poorer neighbours. Rosana Pinheiro Machado, an anthropologist at Oxford University who studies consumer behaviour among the youth in São Paulo's periphery, notes that *favelas* have thriving second-hand clothes markets. Fakes are disdained.

Shopkeepers in the local malls—which are preferred by *rolezeiros* to distant and dearer ones in the city centre—have mixed feelings about the gatherings. On the one hand, says Lucas Martins, a sales assistant at Hot Water, an outlet for *rolezeiro* garb at the Itaquera mall, the youngsters make ideal clients: "They often pay cash up front and can splurge 2,000-3,000 reais in one go." On the other, larger groups can scare away customers.

The authorities are also spooked. They remember the demonstrations in São Paulo against a proposed rise in bus fares, which descended into the biggest nationwide protests in 20 years and brought millions of Brazilians onto the streets in 100 cities last June.

In several cities, social movements ranging from anti-racism activists to Black Blocs, shadowy agitators who are prone to vandalism, have called pseudo-*rolezinhos*. More are planned as different groups try to appropriate the phenomenon for their own ends. Meanwhile Vinicius and Yasmin are readying for their next little outing, on February 8th at the Shopping Aricanduva megamall in São Paulo. Be there. ■

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Political crisis in Thailand

You go your way, I'll go mine

CHIANG MAI

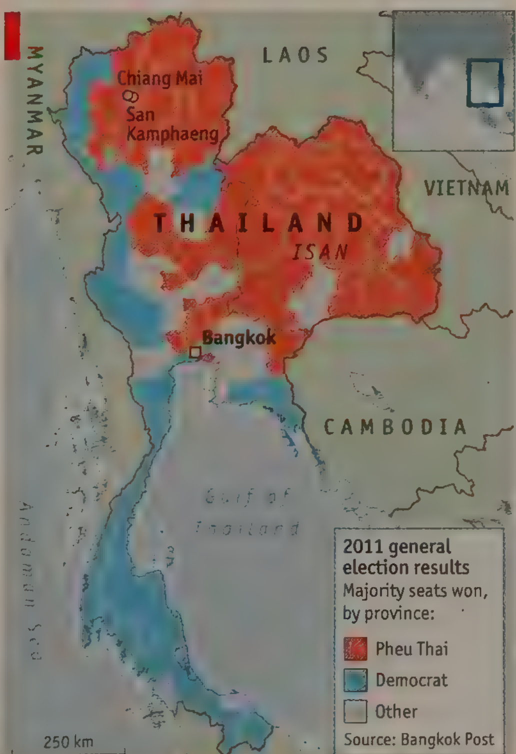
Thailand's very unity is now under threat

STOUT and loquacious, Khamsi Audomsi runs a roasted-banana stall in the covered market of San Kamphaeng, a small town just outside Chiang Mai, the main city of northern Thailand. In front of where she fries up, a greasy wall is festooned with posters and calendars devoted solely to the Shinawatra clan: Thaksin Shinawatra, the former prime minister deposed in a coup in 2006 and now in self-imposed exile, and Yingluck Shinawatra, the current prime minister, who takes orders from her older brother in Dubai.

Thanks to Mr Thaksin's policies, Ms Khamsi says, her family's prospects were transformed. A student-loan scheme allowed both her son and daughter to go to university, a family first. Now their relatively well-paid jobs help to pay for her health care. And for this, Ms Khamsi repays Mr Thaksin and his sister with her undying loyalty. She was a founder of the "red shirts", Mr Thaksin's grassroots political movement.

It is the sort of story you hear time and again in northern and north-eastern Thailand: how Mr Thaksin's social policies, dismissed as mere populism by his opponents, helped people to escape poverty. Chiang Mai and the 16 provinces around it are almost solid red-shirt territory; the 20 provinces of Thailand's poor north-east, a region known as Isan, are even redder (see map). The flames of devotion burn brightest in San Kamphaeng, for this is where the Shinawatras come from and where they return to be buried.

Ms Khamsi and her fellow red shirts are looking forward to the general election on February 2nd. (Ms Yingluck called it in an attempt to break the political deadlock that has gripped the capital, Bangkok, since November.) They can renew their vows and demonstrate once again the strength of the red shirts and the supporters of the ruling Pheu Thai party. Parties run by Mr Thaksin have won every election since 2001, precisely by dominating the rural north and north-east.



2011 general election results
Majority seats won, by province:
Pheu Thai
Democrat
Other
Source: Bangkok Post

For that very reason the anti-Thaksin forces are boycotting the election altogether. Led by a former MP, Suthep Thaugsuban, they have staged mass protests in Bangkok in hopes of ousting Ms Yingluck. Mr Suthep and the Democrat Party, the main opposition, argue that Mr Thaksin's money has poisoned the electoral process and say they will only participate after the system has been cleaned up. Their disruptive tactics may yet cause the election to be postponed or even cancelled.

Mr Suthep launched his crusade three months ago, at the time of the government's cack-handed attempt to force through a bill granting Mr Thaksin amnesty for convictions for corruption and abuse of power. In reality, Mr Suthep's protests are just the latest round in an increasingly bitter struggle for the political soul of the country, between the northern red shirts and an ultraroyalist establishment that controls much of the capital and the southern provinces. The struggle is turning ugly again, and risks splitting the country in two. At least nine have died as men of violence creep on to the stage with sniper rifles and bombs. Each side blames the other for these shadowy *provocateurs*. On January 21st Ms Yingluck declared a state of emergency in Bangkok and its surrounding districts.

Although the red shirts will dutifully vote on February 2nd, they are mostly focused on how they might protect their government, and Ms Yingluck, from the coup that they are all expecting. A coup might be a military one, under the pretext of stopping violence escalating in Bangkok. Or it might be a judicial one, with the courts barring Pheu Thai politicians from taking office because of alleged offences against the constitution. Both have happened before, and the red shirts see both the army ▸▸

and the courts as tools of the Bangkok political establishment.

If Ms Yingluck, who was elected in a landslide in 2011, is forced out of Bangkok, she will be welcomed in Chiang Mai, where she will be encouraged to keep on governing as the legitimate rival to whoever takes over in the capital. That might trigger the split between north and south.

Indeed, many red shirts say Bangkok is already lost. Mr Suthep has nearly free rein there, closing down most government offices. The police have charged him with insurrection and seizing state property, but no attempt has been made to arrest him. The imposition of a state of emergency for 60 days may not make much difference.

Thus most red shirts in the north and north-east now contemplate—indeed they seem to be preparing for—a political separation from Bangkok and the south. Some can barely wait. In Chiang Mai a former classmate of Mr Thaksin's says that in the event of a coup "the prime minister can come here and we will look after her. If...we have to fight, we will. We want our separate state and the majority of red shirts would welcome the division." Be afraid for Thailand as the political system breaks down. ■

South Korea's student protests

Noticing worries

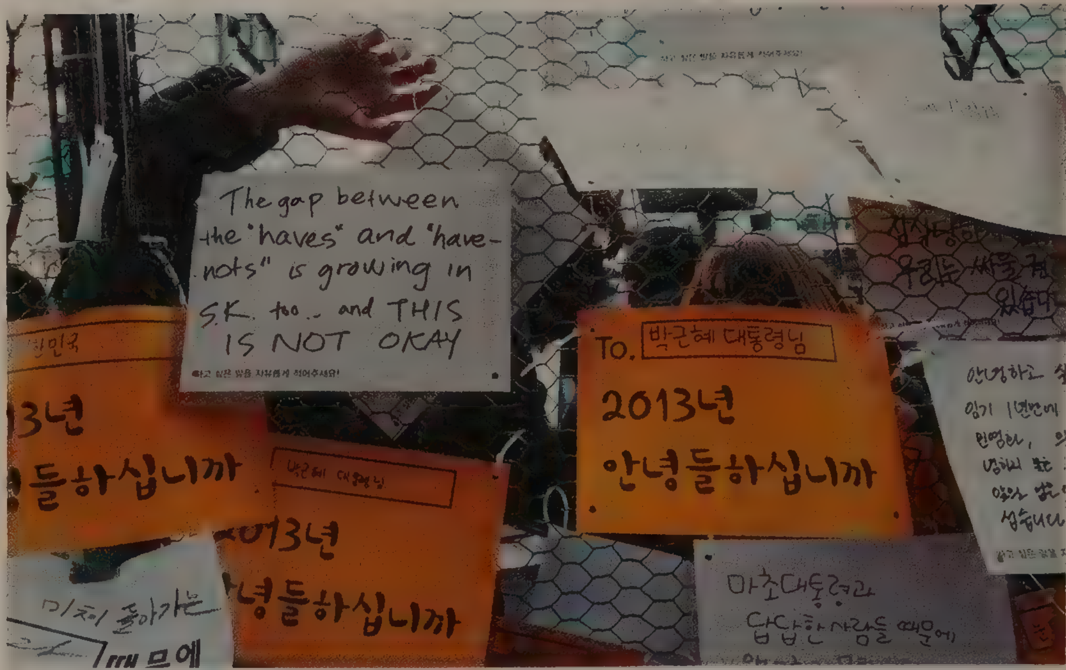
SEOUL

A university poster rallies the discontented

LAST month a business student at Korea University in Seoul posted a large bulletin on a wall in the university grounds. In bold black pen, Ju Hyun-woo recounted the week's events: thousands of railway workers dismissed for striking; the suicide of a farmer in protest at the construction of electricity pylons near his village; and the conservative ruling party's proposal to expel an opposition politician for questioning the legitimacy of the president, Park Geun-hye. Mr Ju asked readers: "How are you all feeling nowadays?"

Answers came in thick and fast, and most people said they were not fine. Within a few days dozens of handwritten posters—known as *daejabo*—were pinned up next to his, on issues ranging from high gas bills to gay rights. Now Mr Ju reckons almost 1,000 have been tacked onto university walls around the country. Students in Japan, America, China and Chile have followed, posting pictures of their posters on the "Can't be OK" Facebook page, which gathered 260,000 followers in a week.

Social media have long been a haven for anonymous dissenting voices in South Korea. But Mr Ju says he wanted to "take responsibility" for his poster: he signed it and stood in front of it for ten hours, engaging passers-by. Breaking with a tradition of politically charged, militant *daejabo*, used in the past by Korean students to demand change, Mr Ju left readers to come up with their own grievances—and answers.



Just the beginning of a beautiful penship?

The group's catchphrase, an everyday greeting, has potential to unite not just students but disgruntled workers, housewives and high-school pupils, says Park Mi, the author of a book on Korean student movements. An opposition politician has used it in a *daejabo* he posted in offices in South Korea's National Assembly, promising to work harder to help those who are "not fine". On January 1st a man calling for the president's resignation died after setting himself on fire—a rare form of dissent associated with the heyday of activism in the 1980s against the then military dictator. (Park Geun-hye happens to be the daughter of South Korea's longest-running dictator, killed by his spy chief in 1979.) Police found the man's last diary entry, entitled "How are you nowadays?".

The connection to the 1980s protests has awakened memories of students bringing down regimes. But Park Mi points out that the "How are you?" protest is not a revolutionary one like that in the 1980s, the aim of which was to end the dictatorship. If today's student rebels have a cause, it is a highly diffuse one.

For Mr Ju the biggest problem is that Koreans do not ask themselves "if they are OK". And they put up with limitations on free expression. Police stood behind barricades in front of *daejabo* posted on the back gate of Seoul's government complex on December 19th, preventing people from reading them. The education ministry warned high schools that posters could have a "negative effect on the learning environment". Some schools have cut class discussion time; a school in Seoul's Gangnam district destroyed a *daejabo* by one of its pupils (he has taken the case to the human-rights court).

Most participants have now taken down their own *daejabo*—including Mr Ju himself, whose poster will be preserved in Korea University's museum as the "document of a democratic movement". For Mr Ju such posters are meant to be temporary. They are, he says, "just the beginning". ■

An election in Tokyo

Blasts from the past

TOKYO

And one of them is Lionheart himself

IT MAY seem odd that the biggest political story in Tokyo is the decision by two pensioners with a collective age of 148 to come out of retirement. One of them, however, is Junichiro Koizumi. As prime minister in 2001-06 Mr Koizumi was that rarest of things: a Japanese leader with charisma, who left office on a popular high. Now he is back, trying to influence the race to run the world's biggest and wealthiest megalopolis.

Mr Koizumi, or "Lionheart" as he was often known in office, has lost none of his flair. After years out of the limelight, he re-emerged last autumn to challenge the pro-nuclear policy of his party, the ruling Liberal Democratic Party (LDP). He upped the ante this month by endorsing another former premier, Morihiro Hosokawa, in the election on February 9th for Tokyo governor—against the LDP-backed candidate. On January 22nd Mr Hosokawa declared his candidacy for governor.

The endorsement has raised eyebrows. Mr Hosokawa headed the first non-LDP administration in four decades but was forced to step down following allegations of bribery. He vanished to indulge his passion for making pottery. Mr Hosokawa is from a line of feudal lords. His candidacy drew a sneering response from Japan's economy minister, Akira Amari, himself from samurai stock: "*Tono, goranshin o*"—"My lord, you've lost your marbles".

Mr Koizumi's decision publicly to defy the two-time prime minister, Shinzo Abe, over nuclear power has an element of *kabuki* drama to it. Back in 2006 Mr Koizumi anointed Mr Abe as his successor. But in office, Mr Abe returned the favour by reappointing many of the rebels his predecessor had expelled in his momentous battle to privatise Japan's giant post office. Mr Koizumi may now be back to teach his former protégé a lesson. Mr Koizumi, says Kenji Utsunomiya, another candidate in the governor's election, is "the kind of person who resents being slighted".

Mr Koizumi's post-Fukushima conversion over nuclear power, however, appears to be genuine. In a trip to Finland last year, he was appalled to learn that radioactive waste buried underground remains hazardous for 100,000 years. Building a safe site for waste in earthquake-prone Japan would be "impossible". A rare economic liberal, he may also relish the chance to take a swipe at the sacred cow of Japan's regional electricity monopolies. Like the post office, the utilities survive thanks to collusive ties with politicians and bureaucrats.

The retirees' return is certainly a headache for the prime minister. Mr Koizumi is popular with the LDP grassroots and could rally many who have reservations about Mr Abe's pro-nuclear stance. If he wins, Mr Hosokawa could use the city's shareholding in Tokyo Electric Power Company (TEPCO), owner of the stricken Fukushima Dai-ichi plant, to derail the government's plans to restart the world's largest nuclear power station, Kashiwazaki-Kariwa, which TEPCO also owns. "The government can't afford to lose in Tokyo," says Jeff Kingston of Temple University in Tokyo.

The LDP has so far ducked a fight with Mr Koizumi but has attacked Mr Hosokawa's age and record. Mr Hosokawa swatted away concerns about his health this week. He pledged not only to phase out the city's dependence on nuclear power but also to scale back what he called Tokyo's over-the-top plans for the 2020 Olympics.

The man to beat is Yoichi Masuzoe. A former health minister, Mr Masuzoe walked out of the LDP in 2010. But a dearth of candidates has forced the party reluctantly to endorse him. The popular Mr Masuzoe is the most familiar face among the 16 candidates. He is backed by Rengo, the giant Japanese Trade Union Federation, which represents nuclear workers.

The LDP does not want the Tokyo election to become a referendum on Japan's idled reactors. Unexpectedly, Mr Utsunomiya, a socialist, agrees. It is not that he is pro-nuclear—indeed, he wants the country's nuclear plants to be decommissioned. But he says that the capital has too many problems for the election to be fought on a single issue. He cites a growing wealth gap, a lack of affordable housing and inadequate preparations for another big earthquake. By obscuring these issues, he says, Mr Hosokawa, Mr Koizumi and their opponents are all the same. ■

Pakistan's special court

General hypochondria

ISLAMABAD

A former dictator prefers hospital to the law court

FOR the past month three judges, 20-odd lawyers and scores of journalists have assembled in the auditorium of Islamabad's heavily defended National Library building. There, a special court has the task of deciding whether Pervez Musharraf, a former army chief who seized power in 1999 and ruled for eight years, is guilty of high treason. Yet the main player in the drama has remained defiantly absent.

Mr Musharraf rashly returned from self-imposed exile in London last year in hopes of contesting a general election. Almost immediately, charges began piling up against him and he was put under house arrest. Now a series of fortunate events have conspired to spare Mr Musharraf the indignity of appearing in the dock. On two mornings scheduled for court hearings, small bombs were found along the route from Mr Musharraf's mansion in Islamabad's suburbs. His lawyers argued that it was unsafe for him to leave home.

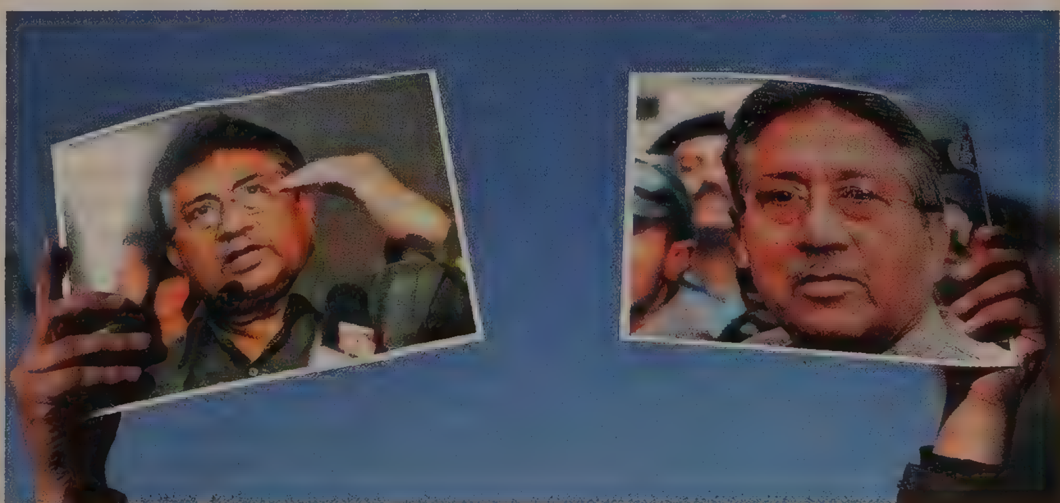
Then, on January 2nd, when Mr Musharraf was at last on his way to court, the former commando, who is fond of tweeting pictures of his morning workouts, suddenly diverted to the Armed Forces Institute of Cardiology and has remained there ever since. The general's medical reports have been leaked. They show no sign of the heart attack his aides claimed he had suffered. Doctors who have read the notes say the 70-year-old appears to be in pretty good fettle.

Mr Musharraf seems desperate to avoid being indicted in court. Unlike some of the other cases against him, legal experts say he knows he cannot win this one. He is on trial not for seizing power in a coup but for suspending the constitution near the end of his rule in 2007. The Supreme Court has already declared that period of emergency rule to be illegal and unconstitutional.

Lacking decent legal arguments Mr Musharraf seems to be hoping that the prime minister, Nawaz Sharif, the man whom he ousted in 1999, will wish him good riddance and bundle him off to the United States, ostensibly for medical treatment. Yet Mr Sharif has not attempted to abort the trial, one which he had long promised. And although he is reluctant to pick an unnecessary fight with the army establishment, he seems determined to assert civilian supremacy over the armed forces.

The army has not done much to back their man either. It no longer wants to be seen interfering in politics or the judiciary. Generals are irritated that Mr Musharraf ignored their advice not to return to Pakistan last year. And Islamist officers loathe the man they say sold the country out when Pakistan joined America's war on terror after September 11th 2001. All the same the army might balk at a conviction.

At one of the special court's hearings, a lawyer for Mr Musharraf complained that the chilly auditorium was more fitting for a "Shakespearean drama" than a trial. With politicians, generals and judges all wary of breaking the logjam, right now it looks most like a farce. ■



Where's the boss?

Banyan | The horcrux of the matter

Intense diplomatic competition between China and Japan shows tempers rising dangerously

HARDLY a day goes by without a new flare-up in the war of diplomatic attrition being fought out by China and Japan. Japan is still complaining about China's declaration in November of an "Air Defence Identification Zone" covering part of the East China Sea, including islands controlled by Japan. China keeps condemning the visit on December 26th by Shinzo Abe, Japan's prime minister, to the Yasukuni shrine in Tokyo, where among the war dead honoured are high-ranking war criminals. Since then more than 30 Chinese ambassadors have invaded the op-ed pages of newspapers around the world to accuse Japan of seeking to revive its militarist past. Japanese diplomats have responded with articles accusing China of aggressive military expansion.

Neither country is winning this war of words. This week it moved to the World Economic Forum in Davos, where Mr Abe again criticised China's military build-up, and caused alarm by likening the rivalry between China and Japan to that between Germany and Britain before the first world war. Scare-mongering, perhaps. But it highlights the real risks in a diplomatic quarrel that is usually seen as somewhere on the spectrum between amusing, embarrassing and mildly alarming—like watching a dinner-party tiff as it threatens to turn into fisticuffs. Most other countries see no reason to intervene or take sides. Indeed, some may hope to benefit from this contest for their loyalties.

Only in South Korea does the battle for public opinion produce a clear winner. This week China rejected criticism from Japan of a monument unveiled on January 19th in its northern city of Harbin to Ahn Jung-geun, a Korean nationalist executed by Japan in 1910 after he had carried out an assassination in the city. Japan regards Ahn, who killed Hirobumi Ito, Japan's colonial governor in Korea, as a "terrorist". China's spokesman, however, calling him "a famous righteous man", at once switched the conversation to Mr Abe's Yasukuni visit. South Korea's ties with China are flourishing and the country's president, Park Geun-hye, requested this statue be built when she was in China last June.

Elsewhere, however, the finger-pointing and name-calling has made both countries look petty. The nadir has been the resort by envoys in Britain to the Harry Potter books. Japan was Voldemort, said China's ambassador, referring to the evil wizard of the series. Displaying an impressive familiarity with J.K. Rowling's oeuvre, he added that Yasukuni was a "horcrux", a receptacle where the evil one secreted part of his soul. Not so, retorted Japan's ambassador, it is China that is playing Voldemort, "letting loose the evil of an arms race and escalation of tensions".

Just as unseemly was a row over a trip by Mr Abe to Côte d'Ivoire, Mozambique and Ethiopia this month. The first visit to Africa by a serving Japanese prime minister in eight years, it was designed to counter China's success in building diplomatic support and winning access to raw materials. So Mr Abe made lavish offers of aid. A spokesman, making a tacit comparison with China, noted that Japanese aid concentrated on helping young people and women, not building "beautiful houses or beautiful ministerial buildings". In response, China's ambassador to the African Union called Mr Abe the biggest "troublemaker" in Asia and brandished photographs of Japanese wartime atrocities.

China is sensitive to the charge that its oft-repeated mantra of non-interference in other countries' affairs is a cover for unstinting support for any thug who happens to be in power at the moment. It could have responded to Japan's jab by accusing it of hypocrisy. Japan, too, has at times been criticised in similar terms: it maintained humanitarian aid for Myanmar, for example, when its former military junta was shunned by America and Europe.

But China chose instead to talk about the war, even though Japan has been at peace for 70 years and memories of wartime Asia resonate only faintly in Africa. Even in countries with a direct experience of Japanese occupation, China's approach seems ineffective. Asian governments disapprove of Mr Abe's going to Yasukuni. But few seem worried by his plans to boost defence spending. On the contrary, most quietly welcome it, being far more concerned about China's military build-up and its vigorous assertion of its claims in maritime disputes.

So Mr Abe's assiduous courtship of South-East Asia—he visited all ten members of the Association of South-East Asian Nations in his first year in office—is unlikely to be undone by anger over Yasukuni. China is losing ground in the region. In Myanmar, for example, an opening to the West since 2011 has been in part an attempt to be less dependent on China. Cambodia's strongman, Hun Sen, has long extolled the benefits of partnership with China and its string-free aid. But he too is cultivating ties with Japan, announcing a "strategic partnership" last month. China itself signalled a new distance from its client when, unusually, its official news agency advised Mr Hun Sen to pursue political reform.

Don't mention the war

Thankfully, this is not yet the first world war, or even the cold war, where Soviet and American allies fell into two mutually hostile camps. Countries do not have to choose between China and Japan. Instead they can hope the two countries' mutual antipathy stokes competitive generosity. That hope, however, is overshadowed by the fear that it might tip over into conflict—that at this diplomatic dinner party, someone might actually throw a punch.

For China, the lesson should be obvious. The way to win support in its argument with Japan about history is less to excoriate Japan for its past than to moderate its own present-day behaviour so that it is not seen as a threat. In the South China Sea, for example, the Philippines and Vietnam in particular accuse China of pursuing its territorial claims ever more aggressively. For Japan, the moral is equally clear, though not to Mr Abe: do not give China and others the chance to harp on about a war fought long ago by reviving the past with visits to Yasukuni. ■

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Corruption

Less party time

BEIJING

The Communist Party's anti-graft campaign has had a surprising impact, but a new report shows how far there is to go

FOR a sense of how President Xi Jinping's anti-corruption campaign is doing, a recent report by Xinhua, the official news agency, is a good place to start: it said that 56 five-star hotels in China had asked to be downgraded last year in order to survive, as local governments have been prohibited from using luxury hotels. Chen Miaolin, chairman of New Century Tourism Group, told Xinhua that revenues at his group's (mostly five-star) hotels fell by 18% last year.

In big cities business is down at many of the best private clubs and restaurants. A number of luxury brands have reported sharp falls in revenues. Rémy Cointreau saw sales of its flagship cognac fall by more than 30% in the last three months of 2013 over the previous year, mostly owing to falling Chinese demand.

The campaign begun more than a year ago by Mr Xi has been surprisingly broad and sustained, and is intensifying as it enters a second year. The Central Commission for Discipline and Inspection, the party's watchdog, says that 182,000 officials were punished for disciplinary violations in 2013, an increase of more than 20,000 over 2012, and of nearly 40,000 over 2011. Thousands of officials have been disciplined for extravagances such as hosting lavish banquets, weddings and funerals, spending public funds inappropriately on travel, the improper use of government vehicles and constructing luxurious government buildings. But two recent developments illustrate the difficulty and sensitivity of the task the party has set itself.

On January 21st a report by a team of media outlets led by the International Consortium of Investigative Journalists (ICIJ), an American organisation, revealed the secret offshore holdings of close relatives of some of China's elite, including Mr Xi's brother-in-law and the son of Wen Jiabao, the former premier. Then on January 22nd authorities began criminal trials in Beijing of independent anti-corruption activists who campaigned for, among other things, public disclosure of official assets (see next article).

The message from Mr Xi is that the party, and only the party, will patrol itself, and is perfectly capable of doing so. But the ICIJ report hints at the failures during decades of self-policing.

The report is based on a leaked trove of documents of two offshore-finance firms and identifies nearly 22,000 clients from mainland China and Hong Kong who have offshore holdings. Such assets are often legitimate—many Chinese firms were encouraged to register companies overseas to help with investing abroad or to list on foreign stock exchanges—but their secrecy can also enable China's rich and powerful to move around their cash and conceal how much they earn.

ICIJ found that close relatives of at least five current or former members of the Politburo's standing committee have incorporated companies in the Cook Islands or British Virgin Islands (BVI). Executives of Chinese state-owned companies connected to corruption investigations are also among those with unexplained offshore companies, the report says, as are some of China's wealthiest entrepreneurs. ICIJ was due to release all 37,000 names of people in China, Hong Kong and Taiwan with offshore holdings, which may lead to more revelations.

Of chief concern to China's leaders will be disclosures about their extended family. Deng Jiagui, who is married to Mr Xi's older sister, owns 50% of a BVI company, Excellence Effort Property Development, according to the leaked files. Bloomberg, a financial-news service, reported in 2012 that Mr Deng has amassed millions of dollars in property holdings and investments in rare-earth metals. Wen Yunsong, the son of the former premier, Wen Jiabao, set up a BVI company in 2006, when his father was in office (it was dissolved in 2008). ICIJ also reports that another BVI-registered firm, linked by the *New York Times* to the former premier's daughter, Wen Ruchun, appears to have been set up so as to obscure her role. The paper reported in 2012 on the vast wealth of Mr Wen's family, and revealed recently that American securities regulators are investigating dealings between Ms Wen and JPMorgan Chase, a bank, as part of an alleged programme to buy influence in China through the children of the country's leaders.

Chinese authorities have been slow to catch up with the flow of cash overseas. On January 1st, for the first time, they began requiring the disclosure of offshore holdings. On January 17th Xinhua reported that the party had tightened rules for "naked officials"—whose spouses or children have moved abroad, leaving them alone in China—and explicitly barring officials from promotion if their spouses have moved overseas. This desire to emigrate is ▸▸

Stand-up comedy

Joking aside

BEIJING

Comedy clubs give young Chinese something to laugh about

ON THE night of January 30th 700m viewers will see in the year of the horse by watching the "Spring Festival Gala" on Chinese television, a four-hour parade of song, dance and a traditional form of two-man comic repartee called *xiangsheng*. Popular opinion among the increasingly sophisticated urban populace is that the programme is cheesy and the jokes lame. But there is plenty of new year cheer and everyone still watches.

Away from the television, however, people are looking for something a little more edgy. Stand-up comedy events known as *tuokouxiu* are becoming popular in larger cities. The word is borrowed from the English word "talkshow", and the format is inspired by American comedians such as David Letterman. Fodder for jokes ranges from the universal—city life, losers looking for a girlfriend—to the latest social issues such as unaffordable housing.

The genre has received a boost from the success of Joe Wong, who arrived in America for the first time in 1994 as a 24-year-old Chinese graduate student, took to stand-up comedy and became the first Chinese-American comedian to perform at America's Radio and Television Correspondents' Association dinner in 2010. Mr Wong recently returned to perform in China.

In the capital he appeared with the Beijing Talkshow Club, a group of young comedians who perform in venues around the city. Xi Jiangyue, who founded the club in 2010, says stand-up is "more rebellious" than traditional comedy. Topics for jokes include China's uncouth *nouveaux riches* and food-safety scandals. Sample joke after a tainted-dairy-products scandal: "When I heard leather was being used to make yogurt I was really angry. We have so many poor people. Why can't we use leather to make something useful like rice or condoms?" Politics can be hinted at but only obliquely: "An American friend asked me, 'If you were an American citizen, who would you vote for?' I told him, 'The Communist Party, of course!'"

Jesse Appell, an American who promotes cross-cultural comedy through a project called Laugh Beijing, says Chinese humour is less direct for cultural as well as political reasons. But the new stand-up format is now finding larger audiences on television, with programmes such as the "Tonight Post-80s Talkshow", hosted by Wang Zijian. Mr Wang is now a household name in China, but it may be a while before he tells the one about President Xi Jinping walking into a bar.

Joe Wong: stand-up star

not limited to officials; a recent survey of China's wealthy by Hurun, a company which publishes an annual rich list, found that 64% would like to move abroad.

Meanwhile, the campaign for official frugality presses on. With Chinese New Year approaching—a traditional time for giving "gifts" in red envelopes—CCTV, the state broadcaster, announced it would cut back on screening a number of official galas, so the people of China will not get to see the "Power of Rule of Law Gala" and the "Gala for Efficient, Intensive Use of Land Resources".

The leadership has gained some credibility for its anti-corruption efforts by prosecuting a number of high-level officials. But accusations of corruption are also a convenient way to attack one's enemies. The ICIJ report, and this week's trials in Beijing, suggest that a lack of transparency and independent accountability may continue to undermine the party's efforts. It has ignored calls, including from reformists within its ranks, for broad public disclosure of official assets. For more than a year it has blocked the websites of Bloomberg and the *New York Times*. And authorities have continued a crackdown on microblogs, which Xinhua once hailed as "an inescapable snare for corrupt officials". Mr Xi has made clear that the only inescapable snare will be the party's. The question is whether that will be enough. ■

The trial of Xu Zhiyong

New citizens

BEIJING

A clampdown on activists continues

THE wife of Xu Zhiyong, one of China's most prominent political activists, gave birth to the couple's first child on January 13th, but the little girl is unlikely to see her father soon. Mr Xu went on trial on January 22nd charged with "assembling a crowd to disrupt order in a public place". One of his lawyers told Agence France Presse that the court tried to make Mr Xu and his legal team speak at the trial but they refused to do so, calling the entire process "a piece of theatre".

Mr Xu, who is 40, is a lawyer and a founder of the New Citizens Movement, a group seeking to work within China's system to improve the rule of law. He is one of at least six members of the movement to go on trial this week in Beijing and Guangzhou. One focus of his activism has been to demand the disclosure of senior officials' personal wealth. The movement was also involved with some small demonstrations last year, which are the official reason why he was detained in July, after three months of house arrest.

In addition to calling for leaders to disclose their assets, Mr Xu and his fellow defendants have also campaigned for better access to education for all citizens, the rights of rural migrants and prisoners, and legal recourse for people harmed in food-safety scandals.

Jerome Cohen of New York University, a leading expert on China's legal system, says the trial threatens to "make a public mockery" of recent rhetoric from Xi Jinping, China's president, and senior Chinese judicial officials about promoting transparency. Mr Xi came to power promising a fairer legal system and greater accountability of party officials. But he has at the same time moved to strengthen controls over the internet and over debate among academics and the increasingly vocal middle class. Amnesty International, a pressure group, called the prosecution hypocritical: "Instead of President Xi Jinping's promised clampdown on corruption, we are seeing a crackdown against those that want to expose it."

Four years ago Mr Xu was detained and charged for tax evasion in connection with foreign funding received by a legal centre he operated, called the Open Constitution Initiative. He was unexpectedly released in August 2009, before the case came to trial. This time, his lawyer says, Mr Xu and his colleagues could receive prison sentences of up to five years. ■

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Syria's civil war

Can he manipulate the West?

President Bashar Assad's hopes are rising that he may be able to use the conference in Geneva to bolster the legitimacy of his regime

IF HISTORY is said to repeat itself first as tragedy then as farce, it seems all too probable that the peace conference on Syria that opened in Montreux this week before moving to Geneva on January 24th is destined to get it the other way round. Hopes that it will do much to bring an end to the three-year-old civil war are slim.

The farce was over an invitation on January 19th from Ban Ki-moon, the UN's secretary-general, asking Iran to take part in the first phase of the conference, which was then rescinded the next day. The horrified Syrian opposition delegation, which had itself agreed to come only at the last moment, said it would walk out unless Iran, a belligerent in the conflict, unequivocally accepted the road map towards a political transition sketched out in the communiqué ending a previous Geneva conference in June 2012. Acceptance of the communiqué is supposedly a condition for attending the present one.

Apparently with American encouragement, Mr Ban had held talks with Iran's foreign minister, Muhammad Javad Zarif, that led him to believe that Iran was willing to accept that condition. When it balked, the invitation was duly withdrawn. The conference was back on, but the shambles had exposed the contradiction underlying it.

Neither the Syrian regime, which has sent a delegation led by its foreign minister, Walid Muallem, nor its other stalwart ally, Russia, a co-sponsor of the conference with America, has the slightest interest in its avowed purpose of establishing a transitional administration implicitly following Bashar Assad's removal. Mr Muallem declared on January 22nd in a tub-thumping opening speech: "No one can grant or withdraw the legitimacy of the president ...other than the Syrians themselves."

Two days before, Mr Assad told Agence France Presse that the conference should be about fighting terrorism in Syria; it was "totally unrealistic" to suppose he would ever share power with the opposition, blithely adding that he was minded to run for another term as president later this year, if public opinion supported his candidacy. Russia's foreign minister, the wily Sergei Lavrov, suggests *sotto voce* that his government has no particular loyalty to Mr Assad himself, and is looking only for a settlement that preserves the Syrian state and prevents a takeover by jihadists. But in practice Russia is doing all it can to help Mr Assad keep his grip on power.

According to a report on January 17th by Reuters, based on intelligence and arms-industry sources, Russia has stepped up its military aid to Mr Assad. Since December "dozens of Antonov-124s have been bringing in armoured vehicles, surveillance equipment, radars, electronic warfare systems, spare parts for helicopters, and various weapons including guided bombs for planes...Russian advisers and intelligence experts have been running observation UAVs [drones] around the clock to help Syrian forces track rebel positions... and carry out precision artillery and air force strikes against them".

The contrast with America, which has blown hot and cold about arming the rebels it claims to support, is stark. While the rebels continue to get money and weapons from Saudi Arabia and Qatar, they have had little from America, as fears have grown that arms would find their way into the hands of groups with links to al-Qaeda, such as Jabhat al-Nusra and the Islamic State of Iraq and al-Sham (ISIS).

Western diplomats justify their emphasis on diplomacy by saying "there is no military solution", but the regime and its allies, Russia and Iran, think otherwise. A degree of military success in the past nine months, combined with divisions among the rebels (which broke out in December into bitter fighting between relatively moderate factions and the most extreme jihadists, leaving around 1,000 dead so far), has convinced Mr Assad that he can grind down his enemies into a terrorist rump.

Mr Assad has been playing his political cards with some skill. The deal brokered by Russia to remove his arsenal of chemical weapons enabled him to present his government as a partner in the project and thus to strengthen his claim to legitimacy. Emile Hokayem, an expert on Syria at the London-based International Institute for Strategic Studies, says Mr Assad believes his strategy of portraying the rebels as jihadist terrorists who threaten both the region and the West is working, and that he will ▸▸

Editor's note: Last week we ran a cartoon that combined the Star of David with the Congressional seal. The accompanying article was about the pressure on Barack Obama from both Congress and Israel to be tough on Iran. Some readers felt that the cartoon implied that Jews controlled Congress. That is not what we intended to imply, nor what we believe. We apologise for any offence that was caused.

try to present himself as a bulwark against al-Qaeda and as a vital source of intelligence to the West. Ryan Crocker, a former American ambassador in Syria, Iraq and Afghanistan, argued last month that, compared with Syria becoming an al-Qaeda stronghold, Mr Assad was the lesser evil. Some way of doing business with him should, he reckoned, be quietly found.

America's secretary of state, John Kerry, still insists that Mr Assad must go. But Mr Crocker's view has gained ground. For Mr Assad this represents a triumph for a plan he has pursued since soon after the uprising began in 2011 of helping jihadists to dominate the opposition to him. His first such move was to free around 1,000 jihadists and al-Qaeda types from prison as part of a so-called amnesty. More recently, it has been reported that ISIS and Jabhat al-Nusra are being financed by selling oil and gas from wells under their control through the regime. Rebels also say that regime forces have concentrated on attacking the more moderate factions, giving the jihadists a helping hand.

When the conference moves to Geneva on January 24th (after *The Economist* goes to press), the regime and opposition delegations will meet face-to-face under the chairmanship of Lakhdar Brahimi, the UN's special envoy to Syria. Officials of the Syrian government probably have no mandate to negotiate anything of substance bar the possibility of opening a few corridors for humanitarian relief and offering local ceasefires to let food and medicine into some of the most wretched areas, such as three suburbs of Damascus—Yarmouk, Moadamiya and Eastern Ghouta.

Mr Nice Guy after all

That too is designed to reinforce Mr Assad's portrayal of himself as an essential partner, for under international law only a recognised government can grant access to UN or Red Cross aid workers. Should the rebels refuse Mr Assad's proposal, he will vilify them as callous towards their suffering fellow citizens. The West can hardly reject what he may be offering, but by working with him they may bolster his regime.

A reminder of the risk of moral jeopardy in engaging with Mr Assad was a report issued just before the conference detailing photographic and documentary evidence of the systematic torture and killing of about 11,000 of his detainees. According to the report, drawn up by three prosecutors with experience of the tribunals concerning Sierra Leone and the former Yugoslavia, most of the victims were young men held in custody between March 2011 and August last year. Sir Desmond de Silva, one of the authors, described the evidence as "documented industrial-scale killing". Yet Mr Assad's hopes are rising that his regime will soon be doing business with a more sympathetic West. ■

Egypt's referendum

Deepening rifts

CAIRO

A referendum on the constitution fails to heal national wounds

THE numbers looked promising. The referendum on Egypt's new constitution that concluded on January 14th showed a respectable turnout of 38% and a walloping 98% yes vote. This seemed to signal broad approval not just of the charter but of the path set by the leaders of the coup last July that shunted Muhammad Morsi and his fellow Muslim Brothers from the presidency into prison. "Egypt has returned to its owners," declared the police minister, Muhammad Ibrahim.

Few in Egypt deny that the poll numbers are accurate. After all, the government, backed by rich supporters, had pumped up support for the vote, even as it snuffed out dissent, arresting a handful of activists who dared put up "no" posters. But as the country reaches the third anniversary of its January 25th revolution, many Egyptians fail to share Mr Ibrahim's bullishness—except, perhaps, for punters on the stock exchange, whose index has surged by 43% since last year's coup.

Battered by waves of arrests and the death of hundreds of followers in the harsh post-coup clampdown, the Muslim Brotherhood has called for mass protests to mark the date. Despite deep antipathy to the Brothers, who while in power under Mr Morsi ran roughshod over political opponents, non-Islamist activists may also turn out to protest against what they see as the current government's wholesale abandonment of revolutionary ideals. Egypt's weary public is fearful, having learned through three years of turmoil how protests can evolve into weeks-long cycles of violence. Nor is it entirely reassuring that Mr Ibrahim, armed with a new law that bans unlicensed protests, has vowed to keep the peace with gunfire if needed.

The referendum revealed other nagging troubles. Though the national turnout was higher than the 33% who voted in a similar poll under Mr Morsi, across much of Egypt's rural, impoverished south barely a quarter of voters bothered to show up this time, and only 16% in the religiously conservative coastal province of Mersa Matrouh. Nationwide, the figure for voters under the age of 30 was barely 20%.

Such discrepancies reflect not only the hardening of a dangerous polarisation between Islamists and their foes, but widespread disgruntlement among Egypt's youth. A generation of young Egyptians felt briefly and giddily empowered by the 2011 revolution. They now sense that the

The general captures a heart

"wall of fear" they had demolished is being rebuilt around them, brick by brick.

With pro-Brotherhood media shut down and more neutral voices taken off the airwaves, Egypt's press has largely degenerated into a hectoring, cheerleading booster of the regime. In a revealing recent television outburst, Mustafa Bakri, a noisy politician favoured by the security agencies, raged about a purported American plot to kill General Abdel Fattah al-Sisi, the army chief whom many Egyptians idolise. Shaking a warning finger, he threatened that Egypt's people would hunt Americans from house to house and tear them limb from limb.

Through a mix of arrests, prosecutorial summonses and harsh court sentences, Egypt's newly invigorated "deep state", as the old security establishment is known, plainly now regards as enemies not only the Muslim Brothers but also the liberal-leaning activists who stirred up the revolution three years ago.

Harsh prison sentences have recently been served on youths for such crimes as illegal assembly, vandalism or allegedly burning the Egyptian flag. Prosecutors recently slapped travel bans on a score of people, pending charges against them for "insulting the judiciary". Half of the accused are Muslim Brothers; the other half includes prominent secular activists as well as former MPs who enjoyed parliamentary immunity at the time of their alleged crimes. A number of journalists remain in prison under vague charges of "falsifying information".

To the despair of former revolutionaries, ordinary Egyptians seem largely unmoved by growing political repression. "To complete the cruelty, this time I feel my imprisonment is meaningless," wrote Alaa Abdel Fattah, a pacifist activist who has languished in jail since being dragged from his home in November and slapped with a bevy of charges. ■

Israel's and Palestine's gas and oil

Too optimistic?

TEL AVIV

Obstacles still block the flow of oil and gas in the eastern Mediterranean

ARE governments of the Levant fooling their people with false promises of an offshore gas bonanza? From the proceeds, Lebanon hopes to fund a bullet train that will end Beirut's traffic snarl-ups. Across the water, the Cypriot government has equally grandiose plans. By 2020 a vast new complex in Vasilikos, on Cyprus's southern coast, is supposed to start shipping liquefied natural gas (LNG) to Europe and even Asia, salvaging the country's finances. Gas reserves, say Cypriot optimists, amount to 96 trillion cubic feet.

Yet most oil analysts say this is all wildly over the top. Even Israel, whose development of offshore gas is most advanced, is unlikely, they reckon, to start exporting large amounts by 2020, as it hopes.

The sceptics say that the main brake is a lack of regional co-operation rather than a shortage of oil and gas. The Americans' official Geological Survey estimates that from Gaza's coast to southern Turkey the eastern Mediterranean holds 122 trillion cubic feet of gas, comparable to the reserves of Iraq. But Lebanon's caretaker government lacks the authority to pass the legislation needed to persuade foreign oil companies to start drilling; a heralded auction is again likely to be delayed. America's effort to mediate over a disputed maritime boundary between Lebanon and Israel is stalling progress. The civil war in Syria is scaring away big oil companies. And drilling off the Lebanese coast has yet to begin.

It has done so off Cyprus, but estimates of the amount of gas and oil to be found there have been inflated, too. Delek Drilling and Avner Oil, two Israeli firms involved in exploration, say that Aphrodite, Cyprus's only proven gasfield, has reserves of just 4.1 trillion cubic feet—barely enough to meet long-term local demand.

Oil companies, including Italy's Eni and France's Total, may find more gas there. If not, Cyprus's LNG venture will depend on getting it from elsewhere, perhaps from Israel's Leviathan field. In any case, Turkey and Cyprus both claim some of the same stretches of water. The Israelis, for their part, have prevented the Palestinians from developing Gaza Marine, a field off the coast of Gaza where BG (formerly British Gas) found gas a decade ago.

Israel, alone, is romping along. It has verified finds of 35 trillion cubic feet. Noble, an American company that has so far dominated Israel's production, says that gas from its Tamar field, which began flowing this year, already supplies 45% of the country's electricity. But development of the much larger Leviathan field, farther west, is slow. Fearing an outcry over the sale of public assets, Israeli ministers have delayed the timetable.

There are other obstacles. Asian buyers, who tend to pay the highest prices, are reluctant for security reasons to ship Israeli gas through the Suez Canal. Turkey, whose energy needs are soaring, might have been an attractive export market for Israel. Construction of a pipeline on the seabed between Turkey and Israel could prove more profitable than an LNG plant, because upfront costs are lower and Turkish gas prices quite high, says Robin Mills, head of consulting at Manaar Energy, an advisory firm in Dubai. But such a pipeline might have to pass through officially recognised Greek Cyprus and the Turkish-ruled north of the island, so an agreement with both would be needed. That will be tricky. An alternative route, under Syrian and Lebanese waters, would be trickier still.

In any case, Israel is loth to strike an export deal with Turkey at a time when that country's foreign policy has become unpredictable and its prickly prime minister, Recep Tayyip Erdogan, could turn off the tap whenever he feels piqued. An Israel-Cyprus deal could make matters worse. Egypt's decision to discard a Mubarak-era agreement to supply 40% of Israel's gas serves as a warning against doing business amid unresolved conflicts. "Without peace with the Palestinians, we can't sell our gas to Egypt, Jordan, Turkey and—who knows?—maybe even to the Europeans," says an Israeli former energy minister, Josef Paritzky.

Tangled in red tape and regional disputes, even oil companies in Israel may flag. Woodside Petroleum, an Australian firm with LNG expertise, is still pondering an ambitious plan to build a floating LNG platform. Noble lacks the capacity to go it alone. Few developers will invest without secure long-term contracts. And buyers in Asia, the best market, are banking on getting an alternative deluge of gas from new finds in the United States. Without exports, regional prospects are less sunny. Ploughing billions of dollars into platforms, rigs, offshore pipelines or costly LNG plants is feasible only if drillers are confident of shipping gas to foreign markets. ■

Yemen's conference

No proper end

SANA'A

Though a national dialogue is formally over, divisions everywhere persist

ON JANUARY 21st, the very day Yemen's vaunted "conference of national dialogue" completed its ten months of work, assassins struck at two of its most prominent participants. Ahmed Sharaf el-Din, a lawyer for a movement representing the Houthis, a disaffected northern group, was shot dead on his way to the conference. Two hours later, Abdulwahab al-Ansi, secretary-general of the Islah party, Yemen's main Islamist group, was not in his car when it was blown up, but his son was injured by the blast. These two acts of violence highlighted the country's continuing instability.

The conference, which was meant, among other things, to make recommendations for a new constitution, concluded four months later than intended. Elections planned for next month have been indefinitely postponed. Abd Rabbo Mansour Hadi, who in 2012 replaced a longtime dictator, Ali Abdullah Saleh, looks set to remain president for the foreseeable future. Members of the parliament formed a decade ago seem likely to keep their seats. In theory, a new constitution is the new priority. But stopping the present wave of violence is what people want most urgently. Yemen is riven with anxiety.

Violence in north and south has contin- ▸▸

ued nearly unabated, with sectarian enmities rampant. In the north the Houthis, who follow the Zaidi school of Shia Islam, have more or less controlled the province of Saada since the uprising of 2011. More recently they have faced thousands of Sunni Islamist tribesmen, as fighting has intensified around a Salafist institute in the town of Dammaj. A series of ceasefires this month halted most of the violence. But clashes have persisted in Amran province.

The formerly independent south is seething, too. Parts of the Hadhramawt have been in the throes of a tribal revolt since December, when government troops accidentally shot dead a local tribal leader. Tribesmen have taken aim at the Yemeni army and at installations belonging to foreign oil firms. Clumsy efforts by government forces to swat tribal fighters in the south-western province of Dhale have resulted in many civilian deaths in an area long a bastion of separatism. An Aden-based television channel owned by Ali Salem al-Beidh, a secessionist leader, has broadcast angrily in the name of "southern resistance". Acknowledging attacks on Yemeni troops in Dhale and Lahej, the statement was interpreted in Sana'a, the capital, virtually as a declaration of war.

Though the national dialogue conference was supposed to resolve grievances of the southerners, most of their political factions boycotted or left it several months ago. Indeed, it remains questionable whether Yemen can be truly reunited. ■

Africa's economies

A tippler's guide

JOHANNESBURG

What SABMiller's lager sales say about the state of African economies

FOR most people the letters BBC denote the British Broadcasting Corporation. For fans of Real Madrid, the world's richest football club, they stand for Bale, Benzema and Cristiano (Ronaldo), the team's goal-guzzling forward line. For investors in Africa's stockmarkets, BBC means banks, breweries and cement. The biggest companies listed on African exchanges are typically BBC firms. And in places where official statistics are scarce or unreliable, their trading figures are often a good guide to how much lending, spending and building is taking place in African economies.

SABMiller is a BBC behemoth. It is one of the world's leading brewers, with chunky operations in 15 African countries and a presence in a further 20 markets on the continent through its alliance with Castel, a French company. Africa is now SAB's fastest-growing market. Lager sales by volume rose by 6% in the year to the fourth quarter of 2013 compared with growth of just 1% in its operations worldwide. So its latest trading statement of January 21st is a useful barometer to the state of Africa's economies.

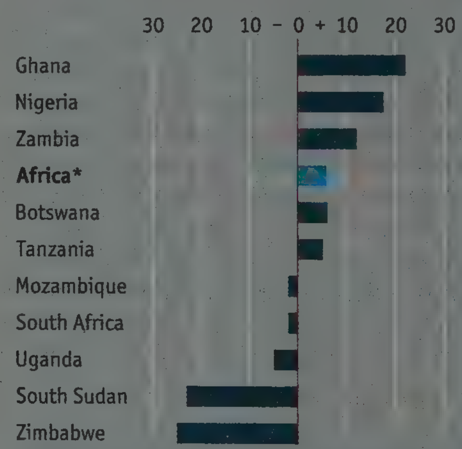
Some of the numbers are startling. A slowdown in the flow of dollars into Zimbabwe last year has squeezed the economy much harder than is generally understood. Lager sales there fell by a quarter (see chart), as big a slump as in South Sudan, where factions are fighting for control of the country. Mozambique has been one of the world's fastest-growing economies, but its beer sales are weak. This suggests that sporadic attacks along the country's north-south highway by the militia of Renamo, the main opposition party, now seem to be harming the economy.

Other African markets look healthier. Though lager sales fell in South Africa, SAB's home market, revenue nonetheless rose, as consumers switched to pricier brews. Sales volumes rose by 12% in Zambia, though the figure is flattered by purchases by traders in advance of January's increase in excise duties. Nigeria is a newish market for SABMiller in which it faces competition from Guinness and Nigerian Breweries. Yet the firm was still able to report volume growth approaching 20%. Ghana appears to be growing even faster.

Afrobeerometer

SABMiller's lager sales by volume

% change on a year earlier, selected countries, 2013



Source: SABMiller *Excluding South Africa

Nigeria's army

Heads off

ABUJA

The president sacks his generals

THE Nigerian army is said to be one of the most capable in Africa, but its recent performance hardly justifies that claim. It is losing a brutal fight in the country's north against Boko Haram, an Islamist terror group. It is failing to stem oil thievery on a gargantuan scale in the south. And its foreign peacekeeping, for example in Mali, which lasted only a few months in 2013, has been lacklustre.

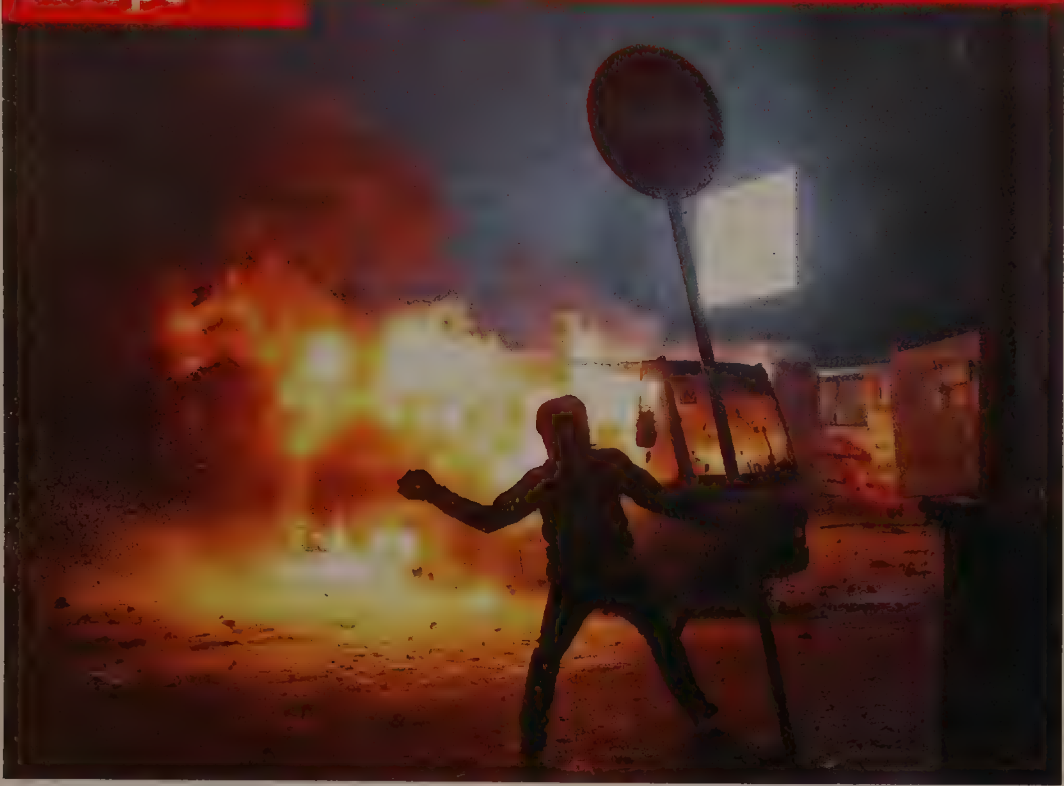
Senior generals from all branches of the forces should have been less surprised than they sounded when they were fired on January 16th by President Goodluck Jonathan in a show of strength intended to impress noisy detractors in his own party. The generals, who for decades held power in Africa's most populous country, are unlikely in response to stage a coup; the politicians are firmly in charge. But this hardly means the army will improve soon. "I see the sackings as more political than a military strategic move," says a Western diplomat in Abuja, the capital. "Poor performance is rarely grounds for dismissal in Nigeria. The army is needed to secure and control elections and Jonathan is lining his people up." The new chief of the army staff hails from Mr Jonathan's home state.

Powerful and wealthy personalities behind Nigeria's past military governments still have a lot of clout. They include David Mark, the senate's president; Muhammadu Buhari, a leading member of the opposition; and Olusegun Obasanjo, the godfather of Nigerian politics.

After he was elected president in 1999, Mr Obasanjo, a career soldier and military ruler in 1976-79, defanged the army and empowered men like himself. Uniformed chiefs are rarely in the media now and the armed forces are tight-lipped about politics. "The days of the military interfering in politics are a distant memory," says Max Siollun, a military historian.

Nigeria has contributed a lot to foreign security missions, notably in Liberia and Somalia, lending the most African troops to UN peacekeeping. Its army is often shown on television marching in immaculate uniforms, with shiny black boots and white gloves, to a descant of trumpets. "They are good at pomp, parades and ceremony, but otherwise it's completely hollow," says a Western military man.

Corruption in the force is endemic and foreign operations are popular as cash cows. Officers stand accused of co-operating with oil thieves in the Niger delta. Government funds rarely reach the lower ranks, who can be seen wearing flip-flops at checkpoints and communicating with officers on private mobile phones. ■



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Protests in Ukraine

On the march in Kiev

KIEV

The protests turn nasty and violent, but the president is not giving ground

JANUARY 22nd was meant to mark Ukraine's unity day, a celebration of its short-lived pre-Soviet independence. Instead, it was a day of civil unrest and perhaps the biggest test of Ukraine's post-Soviet integrity. After two months of largely peaceful encampment on the Maidan in Kiev, the protests turned violent. Five people were reported killed and hundreds were injured. An armoured personnel carrier pushed through the streets. Clouds of black smoke and flames mottled the snow-covered ground. Never in its history as an independent state has Ukraine witnessed such violence.

It was triggered by the passage of a series of repressive laws imposing tight controls on the media and criminalising the protests of the past two months. One law copied almost verbatim a Russian example, including stigmatising charities and human-rights groups financed from abroad as "foreign agents". If Russian human-rights activists denounce their parliament as a "crazy printer" churning out repressive legislation, says Oleksandra Matviichuk of the Centre for Civil Liberties in Kiev, Ukraine has a "crazy photocopier". The clashes show vividly the refusal of the protesters to heed such laws.

But they also reflect frustration with Ukraine's ineffective opposition leaders, who include Vitaly Klitschko, a popular former boxer, Arseny Yatseniuk, a technocrat, and Oleh Tyahnybok, a nationalist. Between them they have failed to accomplish much since people first came out on the streets in protest against the decision of President Viktor Yanukovych to ditch a trade deal with the European Union. They demanded, unrealistically, that Mr Yanukovych step down and call early elections. Even after negotiating with several of Mr Yanukovych's financial backers, they failed to extract any concessions. In the process they have lost much support on the Maidan, where action is wanted more than words. At a rally on January 19th, the crowd even booed its supposed leaders.

The clashes reveal an alarming radicalisation on both sides of the barricades. In recent days the momentum has belonged to a group called the Right Sector, a motley confederation of football hooligans and far-right nationalists. They have shown their own nastiness by lobbing petrol bombs at police and, in a rough display of revolutionary justice, parading around people detained under suspicion of acting as pro-regime provocateurs. Yet even more striking were the numbers of middle-class Ukrainians, who did not wish to go to the front lines of battles with police, but prepared stones for others, while grandmothers offered tea and sandwiches, plus milk to counter the sting of tear gas.

What happens next will depend in part on perceptions both in Ukraine and outside of who was responsible for violence. Mr Yanukovych may try to provoke the protesters so as to justify the use of force. Worryingly for the country's future, it is increasingly clear that neither he nor his political rivals are in control of the situation. With more protesters pouring into Kiev, the opposition has now given Mr Yanukovych 24 hours to repeal the laws.

Western leaders strongly condemned both the repressive laws and the violence. America's State Department has introduced visa sanctions against some Ukrainian officials and the EU budget commissioner plans to probe their bank accounts. Nikolai Azarov, Ukraine's prime minister, was cold-shouldered at the World Economic Forum—after delegates observed a moment of silence for those killed in Kiev.

Russia, which foiled Ukraine's European plans and bought off Mr Yanukovych by promising to bail out his bankrupt economy with a $15 billion loan and cheap gas, accused the West of meddling in Ukraine's domestic affairs. The violence in Kiev certainly pushes Mr Yanukovych deeper into Russia's sphere of influence, moving him closer to Alexander Lukashenko, dictator of neighbouring Belarus.

Yet although Mr Yanukovych is a politician who makes up for a lack of cunning with clumsy brutishness, Ukraine is no Belarus. It is linguistically, culturally and politically split between a Russian-speaking east and a nationalist, pro-European west, joined by Kiev, where Mr Yanukovych's Party of Regions commands little respect or authority. It also has a pluralistic media controlled by a diverse group of powerful magnates who have no interest in splitting the country or in seeing Mr Yanukovych strengthen his economic grip.

Many are wary of the encroaching influence of Mr Yanukovych's son and his ▸▸

friends in big business. Those oligarchs who wanted closer European integration did so not for access to its markets but as a protection against the Yanukovych family's shameless rapaciousness. For much of the past two months television coverage has been overtly on the side of the protesters, at the very least refusing to block pictures from the Maidan as Mr Yanukovych's administration demanded. The scenes of violence could also taint the reputation and business interests of Rinat Akhmetov, Ukraine's richest man and Mr Yanukovych's main backer.

The clashes will also further split Mr Yanukovych's own entourage. So far he has managed to stave off defections by those who might have followed the example of Sergy Lyovochkin, a longtime chief of staff who chose to resign soon after the protests first erupted. Now the prospect of Belarus-style isolation could change the calculations of those round Mr Yanukovych whose fortunes are tied to the West.

Even if Mr Yanukovych manages to clear Kiev of protesters, which is far from certain, he will find himself more cornered and isolated than ever. The irony is that, by walking away from a symbolically important trade deal with the EU in December, he had hoped for short-term economic and social stability that could carry him through to a presidential vote in early 2015. But in the end, his resort to ugly force may be the thing that does most to spoil his chances of re-election. ■

Italian reform

Renzi's tricky bargain

ROME

The new centre-left leader reaches an accord with his biggest opponent that—if it passes—could give him full political power to reform Italy

SEEN from anywhere but Italy, it must appear bizarre. On January 18th Silvio Berlusconi, a right-wing former prime minister convicted of tax fraud and thrown out of parliament last year, was a guest of the centre-left Democratic Party (PD). Mr Berlusconi was welcomed with a "*Benvenuto, presidente*" by Matteo Renzi (pictured), the new leader of the PD, many of whose members are ex-communists. He was tactfully seated beneath a photo of Robert Kennedy (though he also had to look at another of Fidel Castro and Che Guevara).

After two hours of talks, Mr Renzi declared that he and Mr Berlusconi were in "profound harmony" and announced an agreement that, if implemented, could bring much-needed political stability to a country that has been economically stagnant for over a decade. The two men agreed upon a new electoral law and an overhaul of the constitution. This would return to central government powers now exercised by the regions in transport and energy, and also make the Senate an indirectly elected chamber like Germany's Bundesrat, putting an end to the constitutional anomaly of upper and lower houses with identical powers. One reason why Italy is so difficult to reform is that draft laws are batted endlessly between the two.

Renzi strikes a deal

Unsurprisingly, not everyone in the PD was wowed by an initiative that put the disgraced Mr Berlusconi back at political centre-stage. Some felt that Mr Renzi should have talked to another representative of Mr Berlusconi's Forza Italia party. Others thought he should have first done a deal with the New Centre Right (NCD), the PD's partner in Enrico Letta's left-right coalition government. But Mr Renzi wants a formula for decisive government that will allow him to implement an ambitious reform programme. Recent polls give the NCD, whose leader Angelino Alfano split from Mr Berlusconi last year, less than 5% of the vote. Mr Alfano would never have accepted a plan that seeks to take away the leverage enjoyed by what Mr Renzi dismisses as *partitini* ("mini-parties").

Like its predecessors, the proposed new electoral law is fiendishly complex. Candidates would run on closed party lists in which names near the top have the best chance of a seat (men and women would alternate in priority). There would be thresholds to get into parliament (12% for a coalition, 8% for a party running by itself and 5% for each single party within a coalition). If a party or coalition won 35%, it would receive bonus seats to give it an outright parliamentary majority. If not, there would be a run-off second-round ballot.

The reform would remove the threat that now exists of a party winning a majority in the Chamber of Deputies, but not in the Senate. Whether it would turn Italy into a two-party democracy, however, is more debatable. Simulations based on last year's election and recent opinion polls suggest that three or four groups would make it into parliament. But only four got in last year. The biggest challenge to stability is the propensity of Italian politicians to desert alliances that they were elected to join, or to form others: in less than a year, three new parliamentary groups have blossomed in the lower house.

Nor does the bill tackle the biggest criticism of the existing law: that it robs voters of the chance to choose between candidates. The names on the lists, and the order in which they appear, will still be decided by party leaders. "Berlusconi wants it because he has a paternalistic concept of his party; Renzi wants it because he doesn't want his deputies answerable to other factions in the PD," comments Giovanni Orsina, deputy director of the school of government at Rome's LUISS University.

On January 21st the PD's president, Gianni Cuperlo, resigned in protest over the new proposals and Mr Renzi's domineering leadership style. His departure reveals the danger of a split in the party that could yet jeopardise the bill. The PD's leadership endorsed it a day earlier by 111 votes to nil, with 34 abstentions. However, the party's lawmakers owe their seats not to Mr Renzi but to his predecessor as leader, Pier Luigi Bersani. Only a minority are fans of the PD's new boss. Several prefer Mr Letta, today's prime minister.

Even greater doubts surround the plan for constitutional reform, which is meant to be completed next spring. It will require an act of collective suicide by the Senate, in which less than a quarter of the PD's representatives are followers of Mr Renzi. Redistributing the powers of different levels of the state could be dauntingly complex. And then there is the eternal joker in the pack: Mr Berlusconi. This is not the first time he has embarked on constitutional reform with the left. He did it in 1997, only to walk away from the talks a year later, having astutely decoyed his opponents into dropping plans to tackle the conflict between his media and political interests.

Mr Renzi's confidants say the former prime minister's mindset is different this time. Because of his criminal conviction, ▸▸

he knows he cannot be re-elected. A successful reform would let him bow out on a high note, as co-founder of a third republic in which Italy can at last be governed decisively. And, they believe, he genuinely likes the 39-year-old PD leader (though this was also said of Massimo D'Alema, leader of the left in the 1990s).

For outsiders, what is stranger than the rapport between Mr Renzi and Mr Berlusconi is that, for the next 15 months or so, the legislative energies of a country making only a weak recovery from its longest-ever recession will focus on political, not economic, reform. Mr Orsina likens this to a man in the desert with a broken-down car: "He's dying of thirst, but he has to fix the engine to get to the next well." Then again, if it takes too long to mend the engine, he could die of thirst just the same. ■

Hungarian politics

Against the odds

Can a united left overcome its handicaps?

"HUNGARY needs to overcome its economic and financial crisis so that we can consolidate all the changes of the last years," says Janos Martonyi, Hungary's foreign minister. He does not sound like a man whose government is about to lose power. In his view Viktor Orban, the prime minister, needs more time to complete reforms that include a new constitution and unorthodox economic policies.

On January 18th Janos Ader, the president, announced that the next election will be held on April 6th. Mr Orban may well get another four years to fulfil his mission of expunging the communist past and shaping the country according to the nationalist credo of Fidesz, his right-wing party. Fidesz's popularity has recovered recently, partly thanks to utility-price cuts and other populist policies. Opposition parties are weak and have spent too much time bickering with each other in recent months. And Mr Orban has tinkered with the system to his advantage. "Using its supermajority, Fidesz has gerrymandered a number of electoral districts and rewritten the election laws in a way that favours big, unified parties rather than the fractured opposition," says Tsveta Petrova at Eurasia Group, a research firm.

The leaders of the alliance of the Socialist Party (MSZP) and Together 2014 (E14), a centrist party, have just added two other parties to their club, the Democratic Coalition (DK), a small centre-left party, and the Liberal Party led by Gabor Fodor. The four-party coalition would prefer the general election to be on the same day as European elections in late May, because that would save money and lengthen the campaign. "But they had months to form their alliance," retorts Mr Martonyi, who thinks it would be confusing to have national and European elections on the same day.

So the united left has just ten weeks to get its message across. That is tough, they say, because Fidesz controls the state media and gets help from oligarchs with deep pockets. According to Viktor Szigetvari of E14, the alliance will focus on economic policy (advocating pro-growth policies and abolition of the flat tax), state capture (fighting organised corruption) and the constitution (restoring checks and balances done away with by Mr Orban).

It faces an uphill battle. Even united, the four parties poll only 22% of the votes against 28% for Fidesz (see chart). Ferenc Gyurcsany, leader of the DK and a former prime minister, is a polarising figure who may drive away some centrist voters. Although Fidesz is likely to win only a simple majority, it is possible that the party could again win a supermajority (more than two-thirds of the seats in parliament), as in 2010, because the system disproportionately rewards the biggest party.

This worries those who fear that Mr Orban has become authoritarian. A recent example, in their eyes, was the nuclear deal he did with Vladimir Putin, the Russian president, under which Moscow will lend Budapest €10 billion ($13.7 billion) of the €12 billion required to finance two Russian-built reactors at Hungary's nuclear-power plant. Hungary, a highly indebted country, will pony up the rest. "This was a bad decision, made too early," says Mr Szigetvari. The deal, struck without a tender and without parliamentary approval, will increase Hungary's dependence on Russian energy. As opposition leader Mr Orban warned against turning his country into the "happiest barrack of Gazprom" and the risk of returning to Russia's sphere of influence. But this is not the first and may not be the last time that the chameleonic politician makes a U-turn. ■

Orban on top, again

Hungary

Sources: Ipsos; Hungary National Election Office

The Spanish economy

On the mend

MADRID

Suddenly there is a new mood of hope over Spain's economic prospects

THE sales hut on an empty building plot in Aravaca is a symbol of hope. Here, in a desirable Madrid suburb, new flats are being sold off-plan in a five-storey condominium that is due to be finished within two years. In a country with half a million new homes lying empty after its spectacular housing bubble, that may seem like madness. Yet developers are returning to a handful of select areas where the building bust is over. Two months after Aravaca's 49 flats went on sale, fewer than half are left.

After five years of double-dip recession and rampant job destruction, Spain's downward lurch has stopped. Growth has returned; Mariano Rajoy, the prime minister, says it is here to stay. The Madrid stockmarket is euphoric, government-bond yields have tumbled below pre-crisis levels and foreign investors are bargain-hunting. "Spain is back," trumpeted JPMorgan Chase, a bank, in a recent report.

Yet GDP growth, estimated at 0.3% in the fourth quarter, is neither as vigorous nor as ironclad as Mr Rajoy claims. Analysts predict a measly 1% expansion in 2014 as the economy is held back by heavy private debts. The IMF puts Spain near the bottom of its global growth chart for two years. And, as wages fall and a quarter of workers remain jobless, most Spaniards have yet to notice the uptick. Workers like Milagros Morago, whose income fell by 40% after a new subcontractor took over Madrid's public-hospital laundry last month, feel worse off. "I certainly haven't recovered anything," she says.

Another period of dramatic decline is unlikely, unless markets get euro-crisis jitters again. Growth in manufacturing and services is creating new jobs, and consumer demand is creeping back. But the brakes on growth and job creation remain many. Banks, businesses and families are still shedding their debts, keeping money out of the economy. And as private debt falls, public debt surges. The government probably missed even its relaxed target for the 2013 budget deficit of 6.5% of GDP. Public debt, which stood at below 40% of GDP when the crisis hit, will rise above 100% next year, leaving Spain more vulnerable to future shocks.

Worse, says Ángel Laborda of the Funcas think-tank, the government has no clear medium-term strategy to reduce its debt and is heading into an electoral period that will dampen enthusiasm for reforms. Salaries are falling and, with unem-

ployment so high, are unlikely to bounce back soon—further dampening demand and growth. Fitch, a ratings agency, predicts that mortgage arrears will grow as house prices keep falling into next year.

Spaniards routinely blame euro-zone leaders for their woes, but in fact they have helped Spain to recover. They gave it more time to cut its deficit. The biggest aid has come from the European Central Bank's boss, Mario Draghi, whose battle to bring the euro back from the brink of meltdown has eased the pressure on Spanish debt. It has also fired up the financial markets. "Fear has practically disappeared and institutional investors are redoing their portfolios," says Jesús Sánchez-Quiñones of Renta 4, a stockbroker. With bond yields low, Spanish banks are ready to start new lending to small businesses. And banks themselves are reviving after their bailout. Even Bankia, a sickly former savings bank, has raised €1 billion in unsecured debt (see page 61).

Employment remains the main worry. With salaries stuck, new job creation is the best way to boost consumer demand. It also has the benefit of reducing spending on unemployment subsidies. A bumper tourist season and good harvest helped create temporary jobs in the summer and autumn; and the public payroll grew in education and health, despite the deficit. Yet unemployment will stay stuck above 20% for several years. Recovery may be here, but joy will be a long time coming. ■

Turkey's turmoil

Erdogan at bay

ISTANBUL

The prime minister defies his critics but his grip on power may yet weaken

GIANT posters of Turkey's prime minister, Recep Tayyip Erdogan, are appearing on billboards across the country with the slogan "solid will". The message, ahead of local elections in late March, is that Mr Erdogan is firmly in charge. Yet the question voters may ask is: at what cost, both to the country's liberal and European credentials, and to the economy?

Since a huge corruption scandal involving ministers in Mr Erdogan's Justice and Development (AK) government broke in December, hardly a day has passed without a shake-up in the police or judiciary. As many as 96 prosecutors and judges have been replaced. The government is pushing through draconian new laws giving it more control over the judiciary, and tightening monitoring of telephones and the internet. It is also levying huge tax fines against the Koc group, a conglomerate that has been targeted before, and going after Mustafa Sarigul, an opposition candidate for mayor of Istanbul, over a supposedly unpaid loan he got 15 years ago.

The opposition says this is all designed to cover up the scandal and discourage fresh probes. Yet fresh graft allegations keep popping up, only to be suppressed again. Mr Erdogan still claims that dark forces linked to Fethullah Gulen, a combative but influential cleric in rural Pennsylvania who was once a strong AK supporter, are trying to engineer a coup through supporters in the police and judiciary. In his fight against the Gulenists, he is now seeking to enlist two other groups: the army, by offering to reopen some cases against hundreds of officers now languishing in jail; and the Kurds, who also mistrust Mr Gulen and want to continue peace talks.

Not always so solid for Erdogan

Yet although opposition to the prime minister remains weak and divided and there are few checks on his power, his position is not wholly secure, for three reasons. The most important is the economy. A large part of AK's appeal to voters has been Turkey's fast-rising living standards. But growth has slowed sharply and renewed turmoil has led to a slide in the Turkish lira that may point to a rise in interest rates. Voters unworried by corruption stories may fret more about their jobs and consumer loans.

The second big worry for Mr Erdogan lies abroad. Few believe their country will soon get into the European Union. Yet, although official criticism of the prime minister when he visited Brussels this week was extremely mild, some Turks do fret that the country is turning away from its democratic European destiny. Syria is also creating problems. A rising number of refugees and renewed claims that the government is tacitly or otherwise backing al-Qaeda-linked groups fighting the Assad regime have led more Turks to question Mr Erdogan's policy in the region.

His third problem is his party. He has faced criticism even from former ministers, notably Erdogan Bayraktar, a former housing minister who, when asked to resign, retorted that "the construction plans that are subject to investigation were drawn up with the authorisation of the prime minister. The prime minister should resign." Some also believe that Turkey's president, Abdullah Gul, is unhappy with the government's new laws: he would not say this week if he would sign the latest one on the judiciary. Mr Gul, who helped to found the AK party with Mr Erdogan, is widely seen as a more consensual figure.

Mr Erdogan still has formidable support, with some polls putting AK on 40% of the vote. Many Turks fear the return of the economic insecurities of the 1990s and welcome the shiny new roads and buildings that AK has built. Last summer's Gezi Park protests in Istanbul and the battle against the Gulenists have also led some to buy the prime minister's line that Turkey needs a strong patriarchal figure to protect its citizens against evildoers, suggests Jenny White, a professor at Stockholm University's Institute for Turkish Studies. Yet it is now far less certain than before that Mr Erdogan is a shoo-in to take over as president from Mr Gul this summer, or that AK will easily win both the local elections and next year's general election. ■

Charlemagne | Europe's energy woes

The storm over new European Union climate-change targets

ENERGY and green policies should be ideal for common European action. Pollutants know no borders. The cost of renewables such as wind turbines and solar panels can be cut, and their drawbacks mitigated, if they are linked across Europe. When the wind stops blowing in Germany the sun shines in Spain; if both sources die down, French nuclear plants or Swiss hydroelectric stations can take up the slack. A proper European-level emissions-trading scheme should minimise the cost of reducing greenhouse gases. And a successful low-carbon transition should reduce dependence on imported fossil fuels.

Yet the reality is messier. The EU struggles with a hotch-potch of national policies, conflicting and expensive subsidies, Balkanised energy markets and ever-growing reliance on fuel imports. After years of crisis, Europeans are more concerned with the cost of climate-change policies than with their benefits. European industries pay three to four times more for gas, and over twice as much for electricity, as American ones (which benefit from cheap shale gas). One reason Europe has so far met its emissions targets is its long economic slump. Yet recession and deindustrialisation are hardly a climate-change policy.

So the EU's new planned emissions targets, announced this week, were contentious. When wages are being squeezed to regain export competitiveness, it is hard to sell the idea of higher energy prices, particularly when the rest of the world is doing too little to cut greenhouse gases. The current policy is known as 20-20-20: by 2020 its members should reduce greenhouse-gas emissions by 20% (relative to levels in 1990), with 20% of the mix produced from renewable sources and a 20% improvement in energy efficiency. After an unusually acrimonious internal debate, the European Commission called this week for the ambition to be raised to a 40% reduction in emissions by 2030. It wants a "binding" EU-wide target of at least 27% for the share of renewables, though there would be no new national targets for renewable energy. The commission also refrained from proposing new legislation to regulate the development of shale gas.

The decision to give greater flexibility for countries to determine their own energy mix is a victory for Britain. But there were protests from several quarters. Green lobbyists called the targets too tame. By 2030, many say, Europe needs a 55% emissions cut, with 45% of energy derived from renewables, if it is to meet a goal of cutting greenhouse gases by 80-95% in 2050 (the cut in rich-world emissions deemed necessary to limit the rise in global temperatures to below 2°C). By contrast the EU's business lobby is alarmed about rising energy costs, and says the EU is at risk of naively becoming "a lone front-runner without followers".

Increasingly, the commission has had to cast the argument in terms of saving Europe rather than the planet. A long-range policy gives predictability to investors in low-carbon technology, it says; such investment, in turn, spurs innovation and the creation of green-tech industries. For the countries of the troubled southern periphery, renewable technology would help redress trade deficits; for those on the eastern fringe, it would reduce vulnerability to bullying by Russia. In a sop to industry, the commission proposes to maintain free emissions allocations to an ever-growing number of sectors deemed to be vulnerable to rising energy costs (including makers of clocks and musical instruments).

The commission's own models suggest the new targets could make output fall by nearly 0.5% of GDP in 2030 (compared with current trends); or increase by a similar amount if energy-savings measures were strengthened, free allowances scrapped and a carbon tax applied across the rest of the economy. A bigger emissions cut of 45% appears to do no more damage. But such a proposal would be dead on arrival at the March European summit. "The art of politics is to propose something that is achievable," says Connie Hedegaard, the climate-change commissioner.

Europe's confusion is due, in part, to conflicting national priorities. Germany is giving up nuclear power and betting heavily on solar and wind energy (all while burning more coal). France remains heavily committed to nuclear and bans shale-gas exploration. Britain is going all-out for shale gas (and nuclear), being a laggard in renewables. But it also does not help that Brussels has too many commissioners with overlapping responsibilities. The latest package was agreed on only after an 11th-hour battle between Ms Hedegaard and Günther Oettinger, the German energy commissioner who, unlike the German government, wanted only a modest emissions-reduction target of 35%.

Off-target

The fury over emissions targets misses a deeper problem: Europe's carbon and energy markets are dysfunctional. The emissions trading scheme was meant to put a price on carbon to encourage alternatives. But poor policy design, a recession and too many exemptions mean the price has collapsed. The commission has proposed a sort of "central bank" of emissions permits to stabilise the market, but it will take years to sort out.

And although many are right to worry that Europe's energy prices are higher than its competitors', too little attention is paid to wild differences within Europe. Households and businesses in some EU countries pay up to four times more for gas or electricity than in others. Wholesale prices are falling or flat, but retail prices are rising because of differing regulations, price controls, taxes and levies (eg, to pay for renewables). Spain generates large amounts of solar and wind power, but can export little to France given poor grid interconnections. Unless Europe's markets are fixed so that emissions permits, gas and electricity can be traded across the continent, ever more ambitious climate-change targets risk becoming an ever more expensive failure. ■

Economist.com/blogs/charlemagne

Also in this section

Schools outside cities

Island mentality

NEWPORT

Bad schools and low aspirations used to be inner-city problems. Not any more

WITH its sandy beaches, picturesque ruins and (occasionally) azure waters, the Isle of Wight is an idyllic spot off England's southern coast. Wealthy Londoners sail their boats there. It seems odd that such a place should contain some of the worst-performing schools in England. But it does; and in this, the Isle of Wight is not quite as strange as it seems.

Provisional figures show that in 2013 just 49% of 16-year-olds on the island got at least five C grades, including in English and maths, in GCSE exams. That is fewer than in any of London's 32 boroughs, or indeed anywhere in the southern half of England apart from nearby Portsmouth. In the previous year the Isle of Wight was second to bottom in the whole country. Just 23% of pupils entitled to free school meals (a proxy for poverty) got five decent grades, compared with a national average of 36%. In September the island's schools were deemed so bad that Hampshire County Council took them over.

Part of the explanation is distinctively local. Luring good teachers to an out-of-the-way spot is hard. In 2011 the island endured a muddled transition from the sort of three-tier school system common in America, with primary, middle and secondary schools, to the two-tier one that is standard in England. But its results were bad even before that change.

The Isle of Wight's real problems are structural. It suffers from three things that might appear to be advantages but are actually the opposite. The island lacks a large city; it has some, but not many, poor children; and it is almost entirely white.

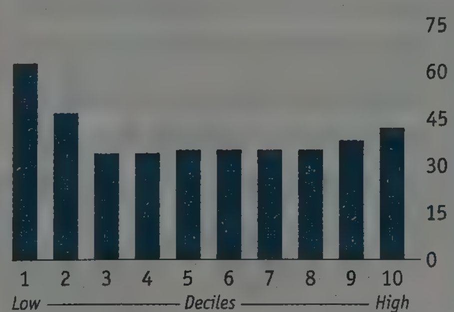
England's worst schools used to be urban, poor and black—or sometimes Asian. But these days pupils, including poor ones, often fare better in inner cities than elsewhere. In Tower Hamlets, an east London borough that is the third most deprived place in England, children entitled to free school meals do better in GCSE exams than do all children in the country as a whole. Bangladeshis, who are concentrated in that borough, used to perform considerably worse than whites nationally; now they do better.

Poor whites are now the country's signal educational underachievers. Just 31% of white British children entitled to free school meals got five good GCSEs in 2012, fewer than poor children from any other ethnic group. They fare especially badly in suburbs, small towns and on the coast—places like the Isle of Wight.

Although the island contains pockets of poverty, it is hardly indigent: overall it comes 106th out of 326 local authorities in England on the government's deprivation index. A bigger problem is a pervasive lack of faith in education as a means of self-improvement. Steph Boyd, who runs a new free school on the island, says some parents doubt whether the education system can help their children—not altogether surprising given the island's failings. A few are more anxious for their offspring to go out and get jobs. And nearby career options are limited, points out Pat Goodhead, the headmistress of Christ the King College, the island's best secondary school. The jobs pages of the *County Press*, the local newspaper, are filled with advertisements for care workers, barmen and cleaners.

Stuck in the middle

% of pupils eligible for free school meals getting five good GCSEs, by social makeup of schools*



Source: Ofsted

*Proportion of children eligible for free meals

The advantage of deep poverty

Oddly, the Isle of Wight might do better if it were poorer. Truly indigent parts of England receive dollops of government cash. Schools in Tower Hamlets get £7,014 ($11,620) a year for each child, compared with £4,489 in the Isle of Wight. In addition, secondary schools get £900 for each poor child thanks to the "pupil premium" introduced by the coalition government.

Impoverished spots also benefit from energetic, idealistic young teachers. Teach First, a programme that sends top graduates into poor schools for at least two years, started in London in 2002. Then it expanded to other big cities such as Manchester. Last year it started sending teachers to south coast towns, but in tiny numbers. Of the 1,261 graduates who joined the programme in 2013, just 25 were placed on the entire south coast, compared with 553 in London.

Poor children do best in schools where they are either scarce or very numerous (see chart). Where they are few, teachers can give them plenty of attention. Where they are numerous, as in the East End of London, schools have no choice but to focus on them. Most ill-served are those who fall in between, in schools where they are ▸▸

insufficiently numerous to merit attention but too many to succeed alone. The Isle of Wight's six state secondary schools are all stuck in the unhappy middle: between 9% and 17% of the children in them are entitled to free school meals.

One woman, who moved to the island from east London with her young daughter, suspects that the Isle of Wight's lack of diversity is itself a problem. She may be right about that. Illiteracy among white British children can be easier to overlook than illiteracy among immigrants. Where schools are forced to help the latter, natives often benefit too, says Matthew Coffey of Ofsted, the schools inspectorate. That seems to have happened in Lincolnshire, which has seen a surge in Portuguese and east European immigration.

The government and Ofsted are increasingly worried about the gap in attainment between poor white Britons and the rest. The Department for Education reckons changing the way schools' success is measured could help. The current emphasis on grades of C and above encourages teachers to focus on children on the cusp of attaining that grade, at the expense of those who do really badly. Beginning in 2016 schools will have to track more closely the progress of each child, no matter what grades they are predicted to get. That should nudge schools that have been able to coast along, ignoring the neediest, to give them more attention. But such reforms may not make much difference on the Isle of Wight. Schools there have struggled even against the current benchmark.

They might look to east London for inspiration. The dramatic improvement in Tower Hamlets resulted partly from efforts to change local culture. Schools ran programmes through mosques to tackle absenteeism. Parents were encouraged to become governors. But change will be harder outside the capital. Tower Hamlets benefits from nearby Canary Wharf, the capital's second financial district, which supplies good jobs and middle-class mentors. The levers of change are less obvious where poor children are scattered thin. And there are fewer obvious institutions through which to try and improve the lot of the godless white majority. ■

The labour market

Working it

A striking recovery in the labour market, and a problem for Mark Carney

IMPROBABLE as it seemed a year ago, the British economy is now the envy of the rich world. On January 21st the IMF predicted growth of 2.4% in 2014. Among large advanced economies only America is expected to do better. Firms are rushing to take on staff, sending the unemployment rate tumbling—and creating a conundrum for the Bank of England.

Despite a deep, prolonged slump, British unemployment never reached the double-digit heights that afflicted America and the periphery of continental Europe. But, even as the economy began to heal, the unemployment rate failed to fall much. That changed last year. The unemployment rate sank from 7.8% in May to 7.4% in September. Official figures released on January 22nd show another steep fall in the three months to October, to 7.1%.

The recovery is impressively robust. Employment set a new record in the three months to November, reaching 30.1m. The number of Britons in work has risen by fully 280,000 since the summer. Unlike in America, where unemployment is declining in part because discouraged workers are dropping out of the labour force, inactivity is declining in Britain. The share of people in work is within striking distance of an all-time high. Job growth has been strong across private industries; unemployment is falling for all age groups.

Crucially, growth is beginning to translate into more secure job placements. Until recently the British labour-market recovery owed much to growth in part-time and self-employment. But since June 2013 full-time positions have accounted for four-fifths of the rise in employment (see chart). That suggests firms feel confident in sus-

tained demand for their goods and services—another good sign.

Whether the shift to full-time work presages a long-anticipated rebound of productivity and wages remains to be seen. A "productivity puzzle" (the remarkably low growth in British output per worker over the past five years) that has vexed economists has not gone away. Output per hour remains substantially below the pre-crisis level, and fell again from the second to the third quarter of 2013.

Some economists reckon this is linked to enthusiastic hiring. Bill Martin and Robert Rowthorn, economists at Cambridge University's Centre for Business Research, say that declining wages are encouraging firms to rely more on human labour and less on capital—machines or software—leading to more employment at lower productivity rates across the economy.

This puzzle is no idle distraction for the Bank of England. When Mark Carney, its head, announced that the central bank's interest rate would not rise from its current 0.5% level until the unemployment rate had fallen to 7%, it was not forecast to do so until 2016. Given the lag with which labour-market data are published, the crucial threshold may already have been crossed, two years ahead of schedule.

Mr Carney has been keen to stress that the 7% marker is not a trigger but a "way-station" at which to assess the state of policy. Quiescent inflation, which has fallen to the bank's 2% target, and muted wage growth means there is little pressure for a rate rise. And if rising output does help firms squeeze more out of their workforces, rising productivity may mean they can afford to pay heftier wages without increasing their prices.

The bank will almost certainly need to update its guidance soon, however, either to lower the unemployment rate threshold or to signal, as America's Federal Reserve has done, that it no longer much matters, and the bank rate will stay low even as unemployment falls. Meanwhile workers continue to toil, hoping for good news on the size of their pay packets. ■

Bagehot | Teddy Edward

Ed Miliband is no Theodore Roosevelt

WHATEVER is in store for Ed Miliband, the Labour Party leader's bid to compare himself to a deceased American president should not turn out as badly as it did for Dan Quayle. No one, to paraphrase a devastating televised attack on the former Republican vice-president, is going to look the leader of the Labour Party in the eye and say, "I knew Teddy Roosevelt…Mr Miliband, you're no Teddy Roosevelt."

Roosevelt is too long dead, which is as well for Britain's opposition leader. Because his aides make a bolder claim than Mr Quayle ever did in comparing himself to John F. Kennedy. Roosevelt, the great Republican trustbuster and regulator of industry, is said to be one of the prime inspirations for Mr Miliband's driving ambition—to mould a fairer, more efficient, less turbulent model of British capitalism, one that looks after the little guy.

Labour has been pushing this history lesson ever since Mr Miliband made a speech last year promising to freeze household energy prices and requisition land left idle by house-builders. His aides redoubled their effort ahead of another speech, on January 17th, in which Labour's leader added retail banking to his growing list of "broken" markets allegedly in need of state fixes. Mr Miliband, it is said, has been freshly inspired by a new biography of Roosevelt, which he handed out to his staff at Christmas.

It is easy to see why Mr Miliband wants to be associated with the Rough Rider. No one thinks Roosevelt hated capitalism: his assault on too-powerful railway, oil and steel companies was intended to make capitalism work better. This is how the Labour leader, struggling to escape the "Red Ed" of tabloid caricature, would like to be understood. It would make his plans more awkward for the governing Conservatives, whose vision for the economy, as he notes, sometimes seems not to extend beyond concern for the tattered public finances. Offering himself as a Rooseveltian insurgent might also connect with a broader disenchantment with elites, in business and otherwise, that Mr Miliband has long sought to tap. And he might believe it.

The Labour leader's diagnosis of Britain's economic travails has a lot going for it. "Over-reliance on insecure, low-paid jobs, not enough of the secure, high-paying ones that used to keep our middle class strong," Mr Miliband intoned before the sort of slavish Labour audience that makes his oratory sound even more sanctimonious than it is. The hollowing out he described, chiefly in response to deindustrialisation and automation, is evident in most Western economies; in Britain it is pronounced. Big regional disparities, fuelled by the growth of London, exacerbate the frictions this creates. Britain's failure to produce many go-getting medium-sized companies, a missing ingredient in the country's disappointing exports performance, is worrying.

A politician with solutions to such problems could claim any antecedents he liked. And Labour has at least suggested some partial fixes. Tax cuts for small businesses, more apprenticeships, measures to mitigate short-termism in financial services and to encourage house-building: these are laudable proposals on which more details are promised. Yet Mr Miliband's headline solutions, uttered at the crescendo of his remaking-capitalism rhetoric, are so unimpressive as to cast doubt on his prospectus.

His banking proposals were typical. After lamenting what he deems to be insufficient competition in the industry, Mr Miliband said a Labour government would instruct the independent (and therefore uninstructible) Competition Commission to determine the maximum size of any bank; it would then demand the big incumbents shrink themselves accordingly. It would also launch two challenger banks. Yet there is little evidence that retail banking—including free deposit accounts and plenty of existing challengers—needs more competition. Breaking up the banks could also hit those who Mr Miliband wants to help: forced to shed account holders, they might drop the least creditworthy first.

Nor would Mr Miliband's plans do much to boost lending to business. That has fallen hugely, but it is because banks are trying to rebuild equity buffers winnowed by the financial crisis, not because of a lack of competition. The weaknesses of the proposal, in short, are so large and obvious that only rank politics could explain it. Kicking bankers is both popular and an obvious dividing line separating Mr Miliband from the Tories. If only he were half so eager to promote competition where it is needed, in the NHS and other jaded public services which Labour traditionally floods with money.

How to win trust and bust it

If the Labour leader's gibe at the Tories' economic vision was well-aimed, his lack of interest in Britain's fiscal constraints is a serious weakness. In his speech, as is now customary for Mr Miliband, he only briefly acknowledged that the next government will rule in straitened circumstances. Apparently resigned to the Tories' lead on this issue, he seems determined to present his market meddling as a rival economic agenda, not the supplementary one it is at best. For a politician who claims the moral high ground, that is nakedly tactical. It may also prove self-defeating.

If Mr Miliband really intends to close Britain's budget deficit by the end of the next parliament, as he says he does, he should already be spelling out for his party what sort of austerity that would require. He is doing nothing of the sort. Ed Balls, the shadow chancellor of the exchequer, will say more on this in a speech due on January 25th. But for Labour to convince, Mr Miliband must take the lead.

Absent such groundwork, Mr Miliband's putative government would be in for a rough ride—though not in the Rooseveltian sense. Embroiled in the bitter reality of having to show more fiscal restraint than any previous Labour government, it would find it exceedingly difficult to remake capitalism. Then again, on Mr Miliband's recent form, that might be just as well. ■

Also in this section

Road deaths

Driving to an early grave

Rich countries have cut deaths and injuries caused by crashes. But the toll is growing in the developing world

FROM the back of St Mary's Mission Hospital, two hours north of Nairobi, Kenya's capital, convalescent patients can watch flamingos frolic on Lake Elementaita. From the front, the view is less idyllic. Overloaded lorries race along the A104, a busy part of the Northern Corridor, east Africa's main trade route. Each month, says Robert Limo, a researcher at the hospital, at least two patients are readmitted, having been run over just minutes after being discharged while waiting for a bus.

This stretch of road was upgraded in 2008 with funding from the European Union. But almost all the $91m went on asphalt and almost none on safety, so the road that was supposed to make everyone richer has brought grief, too. Cars and lorries now speed by at 130kph (80mph). The road has no provision for overtaking or protection for pedestrians and casualties inundate local hospitals, with two or three a week coming to St Mary's from a 5km stretch alone. The picture is repeated across Kenya as the country's roads are upgraded with little thought for safety. Road casualties now account for half of admissions on its surgical wards.

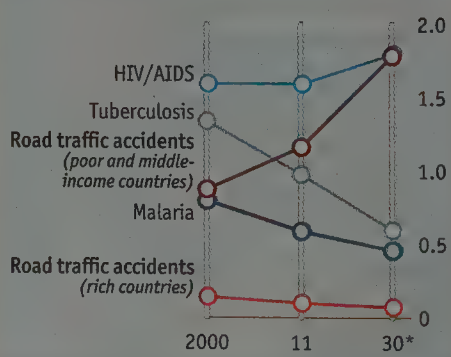
Every 30 seconds someone, somewhere, dies in a road crash, and ten are seriously injured. The toll is rising: the World Health Organisation (WHO) expects the number of deaths globally to reach nearly 2m a year by 2030, up from 1.3m now. But the pain will fall far from equally. Rich countries are making roads safer and cutting casualties to rates not seen for decades, despite higher car use. Poor and middle-income ones will see crashes match HIV/AIDS as a cause of death by 2030 (see chart). In the very poorest, the WHO expects deaths almost to triple.

Where incomes are low, for example in Bangladesh and Kenya, pedestrians top the body count. As they rise, so does the use of motorbikes—often for the precarious transport of entire families. In Thailand motorcyclists are more than two-thirds of fatalities. A bit richer still, and four wheels dominate. In Argentina, Russia and Turkey the main victims are inside cars, buses and lorries.

Higher vehicle standards are a big reason for falling death rates in the rich world. But many other safety measures are simple and cheap. Roads used by pedestrians got pavements and crossings. Fast traffic was separated from cyclists and pedestrians. Governments advertised the need for seat belts and motorcycle helmets, and enforced speeding and drunk-driving laws.

Carnage

Global deaths by selected cause, m



Source: WHO

*Forecast

Where safety has been put first, the results have been remarkable. Though a tragic run of crashes has killed three pedestrians and a cyclist in New York in recent days, speed bumps, pedestrian countdown lights and slow zones around schools mean that the city now has fewer deaths each year than when it started counting in 1910. Sweden has halved road deaths since 2000, and cut them by four-fifths since 1970.

But in the developing world, laws and safety measures are failing to keep up with population growth, urbanisation and rising car use. Development banks and donors often make matters worse, says Kavi Bhalla of the Johns Hopkins Centre for Global Health, by paying for new roads that are fast but not safe.

Over one in three road-accident victims are under 30: crashes are the leading cause of death for 15- to 29-year-olds worldwide. Most of the casualties are men and boys, who use roads more, and take more risks. That means that many were breadwinners, or could have expected soon to be.

So crashes take a huge financial toll as well as an emotional one. A dead or maimed 17-year-old costs much more in lost earnings than an 80-year-old. A victim's family is often plunged into poverty for two or even three generations, says Avi Silverman of the FIA Foundation, a London-based road-safety charity. The International Road Assessment Programme (iRAP), an engineer-led road-safety charity, calculates that road deaths and injuries ▸▸

cost 2% of GDP for high-income countries and 5% of GDP for middle- and low-income countries, including medical bills, care, lost output and vehicle damage—$1.9 trillion a year globally.

Each year $500 billion is spent on new roads. By linking isolated communities to schools, hospitals, jobs and markets, they boost development. But just 1-3% of the construction budget is often enough to make a road much safer, says Rob McInerney of iRAP. And safer roads have much higher returns, says Veronica Raffo of the World Bank.

iRAP has helped to build fences to separate pedestrians from traffic in Bangladesh, at a cost of just $135 to avert a death or serious injury; and installed rumble strips on hard shoulders in Mexico to alert drivers when they are veering from their lane ($920). Telling people about safety laws—and then making those laws stick—can be surprisingly affordable and effective, too. The share of people wearing seat belts in Ivanovo, Russia, rose from 48% in 2011 to 74% in 2012, after a police crackdown and social-media campaign partly paid for by Bloomberg Philanthropies, the foundation of Michael Bloomberg, New York's former mayor and one of the few big aid donors to spend heavily on road safety. Dan Chisholm of the WHO calculates that enforcing speed limits and drunk-driving laws in South-East Asia would cost just 18 cents per person per year.

In the Nesco school in Kibera, Kenya's largest slum, the children recently received government-funded vaccinations for measles and polio. And aid donors have pledged $600m to fight HIV/AIDS, tuberculosis and malaria in the country in the next few years, and $4 billion globally. But with multi-lane highways to navigate on the way to school, and a lack of safe crossings, a quarter of the pupils have been in a road crash and a third have seen a close relative injured or killed. A little more spent on road safety would help more children in Kibera, and across the developing world, make it safely into adulthood. ■

Romani

Travel talk

The surprising resilience of a minority language

EVERY two weeks a language disappears. By 2100 nearly half of the 6,000 spoken today may be gone. Migration, either between countries or from the countryside to cities, is one reason: though new arrivals generally stick with their mother tongue, at least at home, their children rarely do. The dominance of English is another. But one tongue bucking the trend is Romani, spoken by 4m of the roughly 11m Roma (gypsy) people worldwide. Its health attests to the importance of language in shaping identity.

Unlike most languages, Romani has no country to call home. Its roots lie in India, but since the 10th century its speakers have scattered and kept moving. One result is that they are everywhere a linguistic minority. Another is that 150 different dialects are in use. "Anglo-Romani", spoken in Britain, differs widely from dialects in France, Bulgaria and Latvia. One Roma man in New Zealand speaks a dialect previously only heard in Wales.

The 290,000 native Swedish speakers in Finland show no signs of dropping their language—but it is their country's second official one, compulsory in all schools and spoken by 9.5m Swedes next door. Irish hangs on partly because of government spending on translating road signs and documents, broadcasting, teaching and extra marks for brave students who use the tongue in their final school exams.

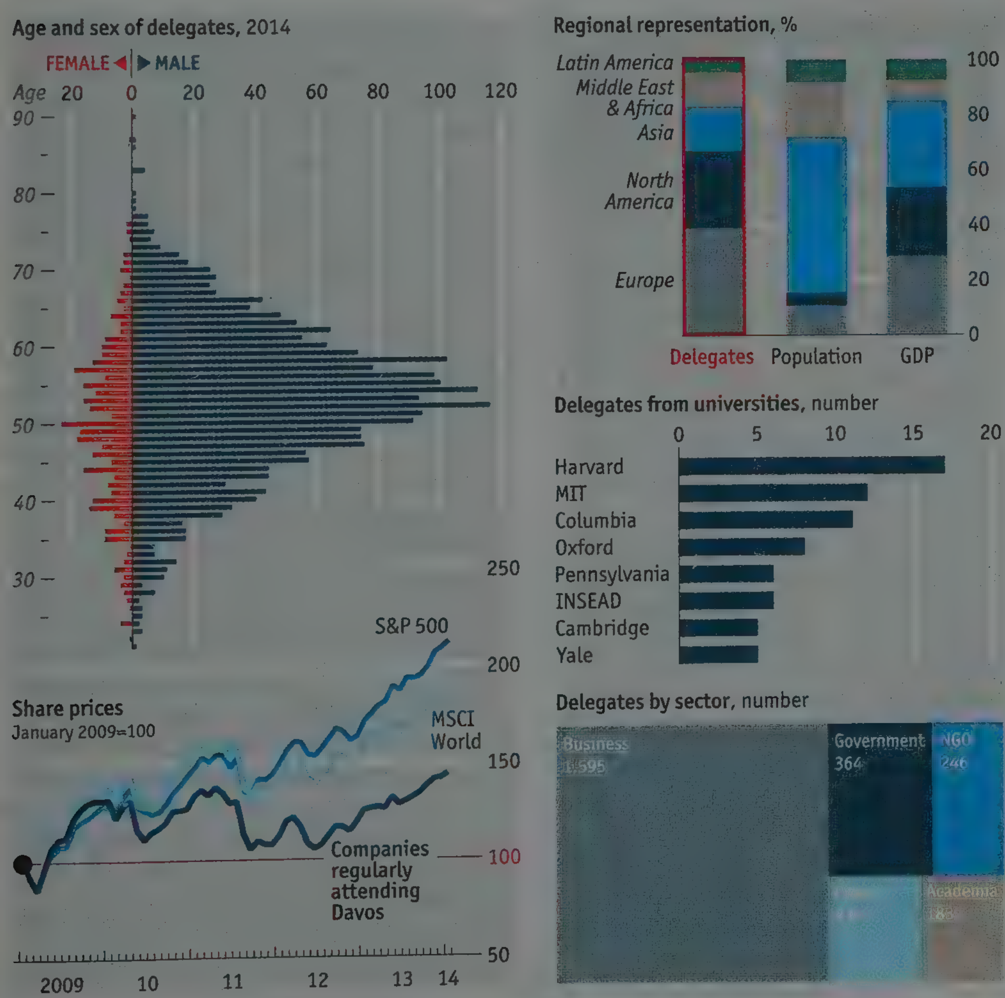
But without a government to champion it, Romani is used mostly in the home. Academics and linguists have written it down and tried to standardise it, but many of those who speak it do not read it. America printed a Romani guide to its 2000 census form, but that is a rarity; it almost never features in official documents.

The lack of texts complicates attempts to teach it formally. Roma Kulturklass, a Swedish Romani-language school, is one of a handful in the world. Its 35 pupils study everything except Swedish and Eng- ▸▸

The data of Davos

Of the 2,622 hobnobbers invited to this year's World Economic Forum in Davos, Switzerland, just 15% are women. Two-thirds of the delegates hail from Western countries that are home to just 12% of the world's population. Counting delegates from academic institutions produces an alternative university ranking—with Harvard right at the top. Some 60% are businessfolk and 14% come from government. The 46 presidents and prime ministers represent 1.8 billion of the world's 7.1 billion people. One in eleven is a hack—four from *The Economist*. The total worth of the 15 richest is around $285 billion.

The stockmarket value of firms represented is $12 trillion, about one-fifth of the world's total. And after all the inflated expenses and egos, what has been the fate of the companies that sent delegates at least three times in the past five years? Those 104 firms underperformed both the S&P 500 and MSCI World Index. Time to get back to work.



Sources: World Economic Forum; IMF; Bloomberg; *The Economist*

lish in both Romani and Swedish. But with few textbooks, says Angelina Dimiter-Taikon, the head teacher, staff must make do with their own translations.

All this should mean Romani is on its deathbed. But its apparent weaknesses—its minority status and scattered speakers—are now what sustains it. One reason is its usefulness as a method of private communication for an oppressed people. It comes into its own when the police come to evict Roma from settlements, says Damian Le Bas, a British Roma and writer. Around 20,000 Roma migrants were evicted from camps in France last year, according to the Human Rights League, a charity.

Despite all those dialects, Romani also allows Roma of different nationalities to communicate. Where repression was particularly fierce, immigration is even dragging it back from the edge of extinction. Fewer than 1% of the 750,000 Roma in Spain speak Romani, partly because the language was banned in the 18th century. But Romani speakers from eastern Europe are leading a revival.

Like many pursuits with sizeable but thinly spread support, Romani-speaking is boosted by the internet. Young people are improvising, finding ways to write text messages and site comments in Romani, says Yaron Matras of Manchester University. The growth of evangelical Christianity among the Roma provides another venue for the tongue. Shaun and Shelley, an English Roma and Irish traveller in Blackpool, started to learn it when eastern European migrants came to their church in 2001. Romani "came back with the Gospels," says Shelley. Such fervour will help it thrive. ■

Gay-pride parades

Pride and prejudice

More places are seeing gay marches—or clever substitutes

SPEAKING at Lithuania's gay-pride parade last year, Birgitta Ohlsson was pelted with eggs. Even so, the mood was much better than at the inaugural event three years earlier, says Ms Ohlsson, who is Sweden's Minister for European Union Affairs and a prominent advocate for gay rights. This time round cheering supporters outshouted the hundreds of protesters, and the number of marchers had doubled, to roughly 1,000.

Nearly 500 gay-pride events took place in 2012 and the total for 2013, when tallied, is sure to be greater, according to InterPride, a network of groups that run them. Nine out of ten were in Europe or North America. They included seminars, films and parties, with a gay-pride march as the centrepiece of most. The way the march looks—and whether one is allowed at all—is a barometer of gay rights in a country, says Evelyne Paradis of the International Lesbian, Gay, Bisexual, Trans and Intersex Association (ILGA), an umbrella group.

The first pride marches, in America four decades ago, were protests against police violence and harassment. Today's vary from solemn rallies calling for acceptance and equality in homophobic places to huge street parties sponsored by city authorities keen on the tourist revenues. Last October the first parade in Podgorica, the capital of EU-hopeful Montenegro, had almost 2,000 police protecting 150 marchers from ten times as many protesters. Ukraine's first, in May, also featured a heavy police presence. But last year was the third that Serbian authorities refused to allow a march, fearing a repeat of the violence that marred Belgrade's first, in 2010. By contrast the main threat for revellers in the parade in Washington, DC—nearly 40 years old and one of the city's attractions—is the summer heat, says Ryan Bos, the executive director of the organisation that runs it.

A flashy parade may indicate a government's commitment to gay rights, but not necessarily wide acceptance. São Paulo's, the world's largest, attracts more than 3m participants and around $75m in tourist revenues annually. But in Brazil in 2012, according to Grupo Gay da Bahia, an advocacy organisation, 338 people were murdered in homophobic hate crimes.

Where governments are lukewarm, foreign diplomats like Ms Ohlsson often feature in the first event. That helps ensure police protection (though it also gives fodder to those locals who view homosexuality as a decadent Western import). Local participation usually grows quickly in subsequent years. Around 500 marched in Taiwan's first parade in 2003, many wearing masks. Nine years later 65,000 joined an event as festive and shirtless as those in New York or San Francisco.

In many places gay-rights rallies are almost unthinkable. In 2012 only seven took place in the 87 countries InterPride categorises as "most hostile" for gay people, which includes most of the 78 in which gay sex is criminalised. But Uganda's oppressed gays held their first in 2012, even as their parliament mulled imposing the death penalty for "aggravated homosexuality", which covers "repeat offences".

Yet public attitudes can change faster than the law. Celebrities and crowds protested in December when India's supreme court declared a 19th-century law counting gay sex as a crime to be still in force. And planning for Mumbai's sixth gay-pride march is in full swing.

Where parades are banned, creativity helps. In 2012 activists rode through Minsk, Belarus, in a tram festooned with gay-pride rainbow flags; Albanians took to their bikes for the Tirana Gay (P)Ride. Rallies are banned in China, so Shanghai's event features a Pride Run instead. Rumours abound of gestures by athletes during Sochi's approaching Winter Olympics, in protest against Russia's ban on "gay propaganda". Some see the German team's multi-coloured outfits as a statement in support of gay rights. The country's sports officials say they aimed only to be fashionable and cheerful. Their athletes may become a rallying symbol all the same. ■

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The cigarette industry

Running out of puff

Big tobacco firms are maintaining their poise, but quietly wheezing

"CIGARETTE smoking is a health hazard of sufficient importance in the United States to warrant appropriate remedial action." It was 50 years ago this month that America's surgeon-general sounded that warning, marking the beginning of the end of cigarette manufacturing—and of smoking itself—as a respectable activity. Some 20m Americans have died from the habit since then. But advertising restrictions, smoking bans and stigma have had their effect: the proportion of American adults who smoke has dropped from 43% to 18%; smoking rates among teenagers are at a record low. In many other countries the trends are similar.

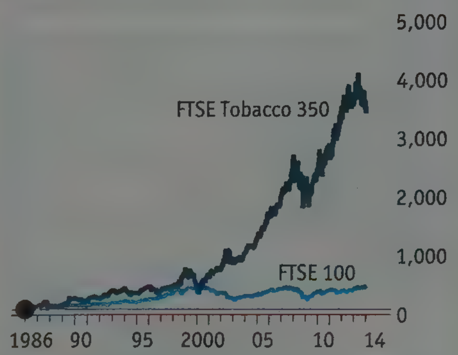
The current surgeon-general, Boris Lushniak, marked the half-century with a report on January 17th, declaring smoking even deadlier than previously thought. He added diabetes, colorectal cancer and other ailments to the list of ills it causes, and promised "end-game strategies" to stamp out cigarettes altogether.

Were that to happen America's three big tobacco firms, Altria, Reynolds and Lorillard, could be snuffed out, too. Public-health officials plot the same fate for multinationals that supply other markets. The hit list includes Philip Morris International (PMI), which along with Altria makes Marlboro, the top-selling global brand; Japan Tobacco; and British American Tobacco and Imperial Tobacco of Britain.

They are a hardy bunch, unlikely to be spooked. But the methods they have used to withstand a half-century of battering by regulators may be losing potency. In the rich world, where the economy is sluggish, smokers are trading down to cheaper puffs. The regulatory climate in developing countries is becoming more hostile. New technologies such as e-cigarettes promise to deliver nicotine less riskily. Big tobacco firms may master them, but it would be a radical shift, akin to converting the car industry from internal-combustion engines to battery power. David Adelman of Morgan Stanley, an investment bank, does not "see anything that's upending the conventional tobacco business model." But the model needs tweaking.

Some reasons for Mr Adelman's confidence are sound. Advertising bans and the industry's pariah status deter would-be competitors. When cigarette-makers raise prices, smokers cough up. Global consumption keeps rising, thanks largely to population growth in poorer countries. The cigarette giants pamper investors with big dividends and share buy-backs; they have flocked to tobacco shares (see chart).

The wages of sin
January 1st 1986=100



Source: Bloomberg

But the going is getting tougher. This month health officials in China, home to more smokers than any other country, called for a ban on smoking in public places. That would mainly affect state-owned China Tobacco, which has a near-monopoly. But multinationals' shares wobbled anyway: the proposed crackdown could portend tighter regulation elsewhere. Britain's government, after some wavering, may now go ahead and copy Australia's requirement for cigarettes to be sold in ugly, scary "plain packs".

Such pleasure-pinching regulation strikes at one of the main ways cigarette companies boost profits: converting smokers to pricier brands. "Premiumisation" is still happening in developing countries, where incomes are rising. But elsewhere smokers are turning to cheaper brands or rolling their own cigarettes. Many smokers will not trade back up once the economy improves, largely because smoking and advertising bans have robbed the habit of its air of glamour. Euromonitor International, a research firm, forecasts that everywhere except in Asia and the Middle East prices will rise less from 2012 to 2017 than they did during the previous five years.

Shane MacGuill of Euromonitor sees in all this "a very serious threat to the long-term health of the tobacco industry." This is spurring a quest for safer methods of supplying smokers with their nicotine fixes. Most of the hype is about e-cigarettes, which give users a hit of vapour ▸▸

infused with nicotine but none of the other, nastier ingredients of tobacco smoke. In America, the fastest adopter, sales have jumped from nearly nothing five years ago to at least $1 billion in 2013.

At first, it looked as if e-cigarettes might lure smokers from the big tobacco brands to startups such as NJOY. But incumbents have been quick to see the threat. Lorillard acquired Blu, now the biggest American brand, in 2012. Altria and Reynolds are expected to launch e-cig ventures nationwide this year. Imperial recently acquired the e-cigarette operations of Dragonite, a Chinese firm that pioneered the technology. Though not the first movers, tobacco companies have bigger war chests, more knowledge of smokers' habits and better ties to distributors than the newcomers.

Some pundits reckon Americans will puff more e-cigarettes than normal ones within a decade, but tobacco folk are sceptical. E-cigs account for just 1% of America's cigarette market. In Europe 7% of smokers had tried "vaping" by 2012 but only 1% kept it up. PMI has higher hopes for a new type of cigarette, which heats tobacco rather than burning it. Such cigarettes could deliver fewer toxins than conventional sticks and more pleasure than mere vapour. PMI says it will invest up to €500m ($677m) in a factory in Italy to make them.

Earlier efforts to hook smokers on heated tobacco flopped, so there is no assurance that PMI's versions will succeed. And no one knows what sort of restrictions regulators will eventually place on "reduced risk" products, including e-cigarettes.

If they can manage the transition to less harmful smokes, and convince regulators to be sensible, the tobacco giants could keep up the sort of performance that has made their shares such a fine investment over the years. But some analysts are not so sure. Many tobacco firms "are struggling to deliver the consistency of the earnings-per-share model we've seen in the past," says David Hayes of Nomura. If that persists, investors may fall out of love with the industry. A half-century after the surgeon-general's alarm, they, and incorrigible puffers, are its last remaining friends. ■

Civilian jet engines

Gearing up for a fight

Pratt & Whitney hopes a high-tech engine will restore its former dominance

THE business of propelling large passenger jets is at maximum thrust. Boeing and Airbus delivered a record 1,300 planes between them last year. They also racked up 2,800 new orders to bring their combined backlog to well over 10,000. The engines account for up to a third of the value of a new jet. So some pundits reckon engine-makers' revenues could total $1 trillion over the next 20 years.

Pratt & Whitney used to tower over the market for such engines but these days it is third-placed in a business dominated by GE, another American company, and Rolls-Royce, of Britain. Pratt is now hoping to claw its way back to the top with its new generation of jet engine, the "geared turbofan". This has a gearbox that lets the fan at the front of the engine turn at a different speed to the compressors inside it. By allowing each to run at optimal speeds it makes the engine more efficient.

A challenger in the air

Pratt's new engine is one of the options airlines can choose when ordering Airbus's revamped version of its A320 "narrowbody" jet, used for short- to medium-haul routes. It is the only choice on the CSeries, a jet whose Canadian maker, Bombardier, is seeking to bust a duopoly between Airbus and Boeing for narrowbodies. But the CSeries's entry into service was this month put back until perhaps 2015, two years later than first planned.

Understanding the aero-engine business is made harder by the fact that as they compete ferociously in one part of the market, manufacturers work together in joint ventures in other parts. In all, about 70% of the world's jetliner engines are made either by GE alone or by CFM International, GE's joint venture with Snecma of France. CFM supplies all the engines for Boeing's 737, its rival to the A320. Buyers of A320s can currently choose between a CFM engine or one from International Aero Engines (IAE), a consortium including Pratt and Japanese and German firms. For bigger "widebody" jets, Rolls and GE are the main contenders.

Rivalry was more intense in the past. But the cost of developing a new engine, at around $1 billion, resulted in today's odd mix of competition and collaboration. Airlines prefer competition, to keep costs down, but there are some advantages to doing without it. It means the plane and engine are made for each other, optimising their performance. An engine-maker guaranteed exclusivity may contribute towards the development costs of a new plane, cutting the risks borne by the planemakers.

Pratt has got by for years on its military-jet engines, its slice of IAE and by milking its installed base of older civil-aircraft engines, which need lots of maintenance and spare parts. But from 2016, when the first revamped A320 is scheduled for delivery, its new geared turbofan engines, which it will make all by itself, will go head-to-head against CFM's LEAP. This is a more conventional engine design, but uses sophisticated composite materials to achieve the same fuel-efficiency savings, of around 15%, that airlines are demanding.

Pratt may eventually produce versions of its geared turbofan for wide-bodied jets, where profits are fatter. Rolls, having given up on the narrowbodied market, plans to return when Boeing and Airbus replace their 737s and A320s with entirely new models—but that is a decade or more away. Chinese and Russian firms want to enter the fray, though that may take even longer.

In the meantime, Rob Morris of Ascend, an aviation consultancy, notes that the tendency towards having just one engine option per plane is growing. For ex- ▸▸

ample, Rolls is the only engine supplier for Airbus's new long-haul plane, the A350, which had its first test flight last year. GE declined to offer an engine because some variants of the A350 are in direct competition with Boeing's 777, on which GE already supplies all the engines. Rolls and GE at least both offer engines for Boeing's 787 Dreamliner, which will compete with other variants of the A350.

So a return to vigorous competition among three or more engine-makers is far from guaranteed. Indeed, Zafar Khan of Société Générale, a bank, suggests that since Rolls is relatively small and Pratt is part of a deep-pocketed conglomerate, United Technologies, Pratt might contemplate bidding for Rolls to ensure its return to the widebodied market. That would require the agreement of the British government, which has a "golden share" in Rolls. But if such a deal also ensured Rolls's long-term future, that might not be impossible. ■

Corporate governance in Germany

Diversifying the board

BERLIN

German boards have long been cosy men's clubs. But things are changing

HERMANN JOSEF ABS liked to joke, "What's the difference between a doghouse and the supervisory board? The doghouse is for the dog; the supervisory board is for the cat." For those unfamiliar with the nuances of German humour, "for the cat" is slang for something like "trash". The late banker would know: while running Deutsche Bank from 1957 to 1967, he also sat on dozens of supervisory boards.

This was the peak of "Deutschland AG", a clique of long-serving bosses, autocratic chairmen, do-nothing board members and their financier friends. Big German companies' supervisory boards are supposed to act as a check on their management boards. But in practice their relations were too cosy for this.

This past year the stumbles of two titans seemed to highlight how much corporate power is still concentrated in few hands in the German-speaking world. As 2013 began Gerhard Cromme was chairman of the supervisory boards of both Siemens, an industrial conglomerate, and ThyssenKrupp, a steelmaker. But big losses at foreign mills and heavy fines over a cartel case cost him the chairmanship at ThyssenKrupp. Then in July, a boardroom bunfight at Siemens ended with the departure of Peter Löscher, the chief executive. Mr Cromme belatedly called for his firing—but only after hiring him and protecting him for years.

Josef Ackermann, a Swiss former boss of Deutsche Bank and a Siemens board member, had defended Mr Löscher. When Mr Löscher went, so did he. Shortly before this he had quit as chairman of Zurich, a Swiss insurer, whose chief financial officer had committed suicide, leaving a note berating Mr Ackermann. Now he has no big corporate job, there have been reports that Mr Ackermann may have to step down as a trustee of the World Economic Forum after its gabfest in Davos this week.

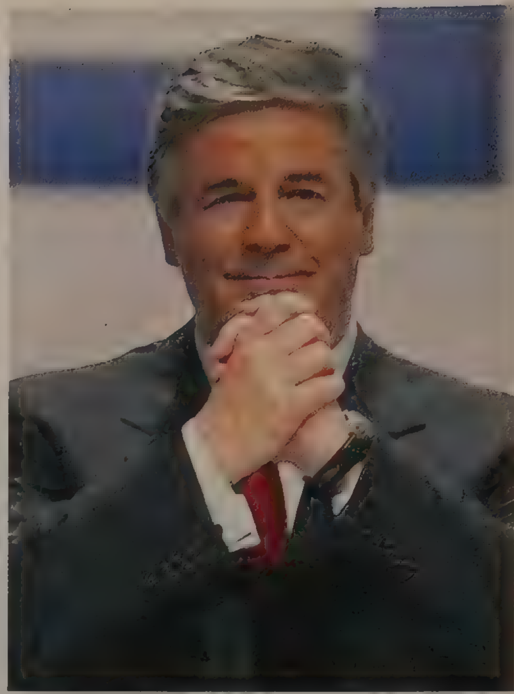
At first glance, corporate power in Germany still looks male, German and concentrated. But its boardrooms are slowly getting more diverse. In 2003 the average supervisory-board member at a public company sat on 1.9 boards; now the figure is 1.6. A 2001 cut in tax on sales of shares let banks and insurance companies, which played big roles as lenders and part-owners, start disentangling themselves from companies. Into the gaps, and onto the boards, has come a new generation of more active members.

Boards have little choice but to be sharper, says Christoph Schalast of Frankfurt School of Finance and Management. Many companies are now paying fines and settlements for their behaviour before the financial crisis. (Deutsche Bank is among them, €528m in legal costs contributing to nearly a billion-euro loss in the fourth quarter of 2013.) A 2010 change in the law doubled the statute of limitations for such misdeeds to ten years.

Progress on making boards more international is slower (though at least German firms are ahead of Japanese ones on this). Eight of the largest 30 public companies have foreign bosses, but the rest of their boards' members are predominantly German, even at the country's most multinational firms. But Burkhard Schwenker, the boss of Roland Berger, a consulting firm, says that counting passports is simplistic: what matters more is international experience, which German firms increasingly look for when recruiting both management- and supervisory-board members.

The hardest cultural change for German firms seems to be getting more women on boards. They are far behind companies in places like Britain and Sweden that have no quotas for women directors, let alone ones like France and Norway that do have them. Germany's new coalition promises to bring in a quota of 30% women on boards by 2016—almost double the current share at DAX 30 companies.

Some, such as Mr Schwenker, insist that Germany has no shortage of qualified women for boards. Business schools, a relatively new phenomenon in Germany, are aiming to meet the growing demand by running "board-readiness" courses for them. But if suitable women candidates do abound, companies are not yet finding them. Instead, a few so-called golden skirts are amassing board positions.



Tough at the top for Ackermann

If boards are becoming more professional and diverse, is accumulation of board seats a bad thing in itself? Jörg Rocholl, the president of the European School for Management and Technology, says that studies disagree on whether busy board members are better or worse for profits. But he agrees that boards are becoming more capable, and says this has been a factor in Germany's economic revival. Pay for German board members is going up; but these days, members are earning it. ■

Internet firms and taxes

Patch-up job

NEW YORK, PARIS AND SANTIAGO

Taxmen are doing whatever they can to squeeze more from online businesses

THE international framework for taxing multinationals has been tweaked and refined over several decades under the aegis of the OECD, a club of mostly rich countries. But it remains "a patchwork of national laws and international treaties, frayed by internal and cross-jurisdictional inconsistencies," laments Ajay Gupta, editor of *Tax Notes International*.

Internet businesses find it especially easy to exploit the holes in the fabric to shift profits to places with lower taxes. Data on an internet user in one place can be analysed in another, then used to sell advertising, aimed at that user, to an advertiser in a third place. Taxmen generally cannot get their teeth into a web firm's profits unless it has a "permanent establishment"—an ill-defined term—on their turf.

All this lets internet giants engage in ▸▸

breathtaking tax gymnastics. In 2011 Google cut its tax bill by $2 billion by routing some sales royalties through units in Ireland, the Netherlands and Bermuda. The OECD aims to produce firm proposals for reform by 2015, and was due to give an update on its progress on January 23rd, after *The Economist* went to press. Pascal Saint-Amans, the head of its tax division, says it is proving "complex and contentious".

The OECD's big worry is that those European and developing countries that most dislike the present set-up may lose patience and act unilaterally. This, the OECD warns, "could lead to global tax chaos marked by the massive re-emergence of double taxation."

It is in France that profit-shifting raises the most hackles. In 2011 Apple, Amazon, Facebook, Google and Microsoft paid just €37.5m ($52.1m) in corporate income taxes there, rather than the €829m that might have been due had their activities been taxed under domestic rules, reckons Paris-based Greenwich Consulting. The French tax agency is reportedly pursuing Google for €1.7 billion in back taxes and penalties.

France has been buzzing with internet-tax proposals: last year there were no fewer than four officially commissioned reports on the subject. The first, in January, suggested taxing firms on the personal data they collect from online users. In May a former television boss's report proposed a 1% tax on the sale of smartphones and other devices that display content. France already levies a "culture tax" on cinemas, broadcasters and internet-service providers, to subsidise the making of French films and TV shows. In September an independent committee came out against any unilateral taxation of online activities. But in December an official agency, the Superior Audiovisual Council, recommended extending the culture tax to entertainment sites such as YouTube and Facebook.

Egged on by France, EU leaders have blessed a decision by the European Commission to appoint a digital working group, which has until the summer to produce proposals on internet taxation. Prominent among its members is Pierre Collin, an author of the French report that proposed a data-collection tax.

For all the sound and fury in France, Italy is the first big EU member to pass a law to curb profit-shifting by internet firms. Last month its parliament approved a bill requiring Italian companies to buy their internet ads from locally incorporated firms instead of the tax-haven subsidiaries that many transact with today. However, the law probably violates a central EU tenet that companies can buy and sell across national borders. So the government has delayed its implementation until July, while it co-ordinates with other EU countries.

Elsewhere it is the tech giants' clients that are in the taxman's crosshairs. In Chile, for instance, the tax authority informed hundreds of local firms last year that they were liable to pay a 35% tax for their use of Google's AdWords service and, worse, would have to pay it retrospectively for 2010-12. Juan Pablo Swett of the Association of Entrepreneurs of Chile estimates that about 100 firms will go out of business if forced to cough up. The companies have sued the tax agency. They may also go after Google, whose American ad-sales operation should not, they say, have handed over their details. Now that they have to pay more for AdWords, a lot of Chilean companies have stopped using it.

With or without such unintended consequences, the OECD could struggle to persuade the countries that count to stick with multilateralism rather than acting alone. It will not be easy to craft solutions that placate the Europeans while not upsetting America, which will fight any proposals that threaten its tech giants' competitiveness. Those firms, meanwhile, are busily lobbying against anything that would penalise "efficiency" and "innovation". ■

Religious investigation services

The Lord's outsourced work

The Vatican introduces price controls on the saint-verifying business

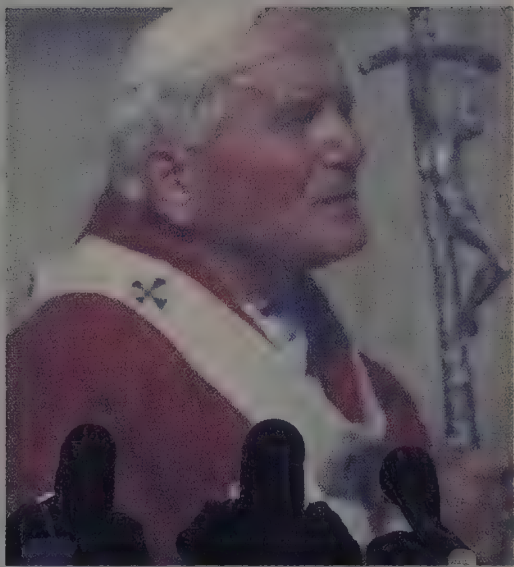
IF YOU came across an essay titled "The Cost of Sainthood" you might assume it was a homily on the self-sacrificing life of some heroic person. But it turns out that sainthood has a cost in a more literal sense—and it has been rising.

When Cardinal John O'Connor of New York started a campaign for the canonisation of Dorothy Day, an activist who toiled among the city's poor, some said this was a bad use of church funds. He retorted that the expense was not excessive: an initiative to canonise a Haitian-born New Yorker called Pierre Toussaint, already well advanced, had cost less than $4,000.

But that was in the late 1990s. These days a successful canonisation campaign launched in America typically costs around $250,000, and can go far higher, says the Catholic News Service, an agency editorially independent of the church.

The procedures for having somebody recognised as a saint are elaborate and bureaucratic. They require an exchange of documents and expertise over many years between the person's home region and the Vatican. All sorts of experts may be called in, including doctors, who are asked to comment on the two miraculous cures which are a prerequisite for full sainthood. And a key role is played by an expert, often a Rome-based canon lawyer, known as a "postulator", who mediates between the candidate's fan base and the Vatican, and helps prepare a case for sainthood. To the dismay of Dan Brown fans, the role of "devil's advocate", who argued against a prospective sainthood, was abolished in 1983.

The whole business will come under scrutiny this year, with two recentish popes—John XXIII and John Paul II—due to be proclaimed saints in April. This helps explain why, in a speech to postulators this month, Cardinal Angelo Amato, who oversees the Vatican's sainthood department, disclosed that it had introduced a "reference tariff"—in effect, price regulation—for the costs incurred in promoting a possible saint. The department will also continue to ensure that candidates from poor countries, whose backers are less able to pay for elaborate verification services, get a fair hearing.



On the road to sainthood

Even that policy has its detractors. Bill Briggs, author of a book on canonisation, has argued that the investigation system introduced by John Paul II, since it is less adversarial than before, was a "marketing coup": it facilitated a wave of new saints in emerging markets, helping to recruit new souls to Catholicism.

But sainthood is never just a matter of money. Some see the canonisation of two popes—a Polish conservative and an Italian reformer—as a way to reconcile traditionalists and radicals. And Meaghan O'Keefe of the University of California, Davis sees the promotion of Dorothy Day as a move by male bishops to neutralise the country's left-leaning nuns. Politics comes into the picture, as well as Mammon.

Lionsgate

Fighting the system

SANTA MONICA

Hollywood has a new star studio with a different approach to the film business

WHEN some of Hollywood's biggest studios were pitched a film based on a book series in which young people fight to the death at the behest of a totalitarian government, they passed on it. Bad call. Lionsgate, a fast-growing independent studio, grabbed it, and five years later "The Hunger Games" is one of the most successful film franchises in cinema history.

Like the films' heroine, Katniss Everdeen (Jennifer Lawrence, pictured), Lionsgate has achieved a level of success no one predicted. American box-office figures for 2013 are now in, and they show that the second "Hunger Games" film helped Lionsgate to overtake Paramount and Fox (see table). Other than the surviving six "majors", all dating from the age of Gloria Swanson and Rudy Valentino, the young challenger, founded only 17 years ago in Canada, is the only studio to have grossed more than $1 billion in a year, as it did in 2012 and 2013.

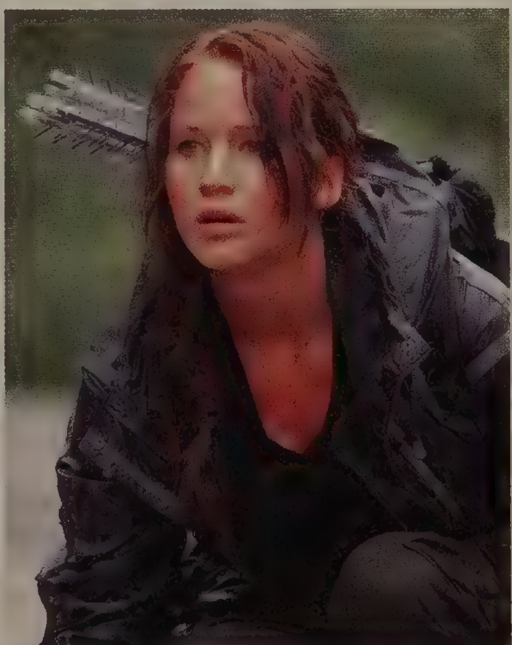
Until recently Lionsgate was best known for its cheap but profitable horror and "genre" flicks, such as the gory "Saw" series and comedies featuring Tyler Perry, a black man who impersonates an old lady. In 2011 it fought off Carl Icahn, an activist investor, who had waged a three-year campaign to oust Lionsgate's leaders and merge it with MGM, a legendary studio that had long lost its roar.

Lionsgate has risen by melding risk aversion with serious ambition. Jon Feltheimer, its boss, and Michael Burns, its dealmaking vice-chairman, have made a series of wise transactions, most notably a 2003 merger with Artisan Entertainment, which had a big film library, and the 2012 takeover of Summit Entertainment, another independent studio, for about $413m. Summit brought into Lionsgate's den the "Twilight" franchise, an extraordinarily lucrative film series about a love affair between a brunette and a vampire. Since then Lionsgate's market capitalisation has more than tripled, to over $4.1 billion.

Lionsgate's television unit, which brings in about one-seventh of its revenues, has also had a run of hits, from "Mad Men", about 1960s advertising folk, to "Nashville", a tale of country-music stars. Its bosses want to keep expanding the TV side until it is about a third of the entire business.

Unlike the old Hollywood majors, it has no studio backlot: its offices are in a dull office block in Santa Monica. It licenses out most of the international rights to its films in advance, and thus it usually has no more than $15m at stake in films that may cost several times as much to shoot. This protects it against catastrophic losses like those that sank past challengers to the Hollywood majors (such as United Artists when "Heaven's Gate" flopped in 1980). However, it also limits Lionsgate's upside when its films do well abroad.

Lionsgate is lean, with only 550 or so employees compared with around 10,000 at Warner Bros. That means quicker decisions, and less chance that good ideas get stuck in "development hell". The lemming-like majors all shove their blockbusters onto the market simultaneously in the summer holidays and at Christmas; Lionsgate slips out releases at times when punters are less overwhelmed with choice. It has been bolder than its rivals at releasing films for "on-demand" home viewing at the same time as they open in the cinemas: it did so with "Margin Call" and "Arbitrage", two tales about dodgy financiers.



A star is born

Hollywood majors' gross American box-office receipts, 2013

Majors	Founded	$bn
Warner Bros.	1923	1.9
Buena Vista (Disney)	1923*	1.7
Universal	1912	1.4
Sony/Columbia	1918	1.1
Lionsgate	**1997**	**1.1**
Twentieth Century Fox	1915	1.1
Paramount	1912	1.0

Sources: Company websites; Box Office Mojo

*Walt Disney Company founded

The majors are nowadays all part of large conglomerates, but Lionsgate has no sugar-daddy to run to if it hits hard times. However, its independence has also freed it to pursue opportunities others might neglect. Kevin Beggs, the boss of Lionsgate's TV business, calls it "the Switzerland of television: we look everywhere, and we don't have a conflict." Other studios were slower to make programmes for Netflix and similar digital firms, because their parent companies owned broadcast networks and big cable channels that could be threatened by such services, says Alan Gould of Evercore, an investment bank.

Other studios are all doing, with varying degrees of success, some of what Lionsgate has been doing. They are investing in expensive, special-effect-laden "franchise" films featuring familiar characters: Lionsgate's recent hits are proof that Hollywood is now a franchise business, says David Ellison, the boss of Skydance Productions, a film-financing company. They are also expanding their television sides, to offset the lumpiness of earnings from films. And some are, like Lionsgate, seeking to hedge risks. One way to do this is to sell stakes in big-budget productions to outside firms and wealthy individuals, the "modern Medicis", in the words of Amir Malin of Qualia Capital, a private-equity firm.

With more "Hunger Games" films to come, analysts expect big profits for Lionsgate through to 2017. Some worry that it may then run out stardust. So Lionsgate needs to keep looking for new franchises. Mr Feltheimer hopes that "Divergent", a book adaptation about a society that categorises citizens into different groups, could be its next mother lode. He will know in March, when its first film is released. But blockbusters' ability to bust blocks is as unpredictable as ever. Lionsgate had great expectations for "Ender's Game", a military sci-fi film, but it grossed only $112m worldwide, barely covering its $110m production budget, let alone the marketing costs.

It is in the nature of Hollywood that unknowns rise rapidly to fame, only to burn out. A young studio can keep costs lean in the beginning, but when it hits a high, it becomes harder to plead poverty to actors and directors asking for more money. Look at New Line Cinema, founded in 1967, and latterly the "indy" division of Warner Bros. It rose in the 1980s, and went on to claim hits like the "Lord of the Rings" film trilogy, but it overstretched and spent too much on films that no one much wanted to see. Diverse revenue streams can help insulate failures, but do not insure against them. As Katniss Everdeen and any film fan knows, one can win one "Hunger Games" only to be thrown back in, and be forced to fight another round. ■

Schumpeter | The not so Golden State

For all Silicon Valley's vibrancy, California can be a lousy place to do business

IN THE gold rush of the late 1840s, chancers dreaming of quick riches flocked to San Francisco. It is the same today, only this time they are armed with computer-science degrees rather than shovels and picks. It is boom time again in Silicon Valley. Startups are sprouting like mushrooms after rain. Investors are showering them with cash. Hoodie-clad geeks are quaffing champagne in trendy bars, as they celebrate their nascent firms' multi-billion-dollar valuations. Meanwhile, Google and Apple continue their march towards world domination.

Those observing from afar the valley's burgeoning entrepreneurial scene could be forgiven for concluding that California must truly be a Golden State for business. But beyond the gilded strip of land between San Francisco and San Jose is another California, an inhospitable place plagued by over-regulation, mindless bureaucracy, high taxes and endless lawsuits. Last May, six months after the state raised its top income-tax rate to the highest in the land, *Chief Executive* magazine named it America's worst for doing business—for the ninth year in a row. Four months later Governor Jerry Brown signed a bill raising the minimum wage from 2016 to $10 an hour, also the highest of all the states.

Entrepreneurs who survive the ordeal of gathering all the permits needed to start a business—opening a restaurant can take more than two years in California—are then micromanaged by labour laws telling them when to pay overtime, and how much. They suffer electricity prices that are already among America's highest, and which may rise further to meet the state government's ambitious carbon-emissions goals.

Then there is the California Environmental Quality Act (CEQA). A well-intentioned law to curb the damaging effects of development has mutated into a monster. Almost anyone can file a CEQA lawsuit against any project they dislike; plaintiffs win half of the cases they enter, and when they lose they do not need to cover defendants' legal fees (the reverse does not apply). Builders are compelled to hire expensive unionised labour to ward off union bosses' threats of spurious CEQA suits. Shops and petrol stations file cases to prevent competitors from opening up. A longtime observer sums up the attitude of Californian state government to business as follows: "Fuck you, fuck you, fuck you, fuck you, fuck you, fuck you, fuck you, fuck you and fuck you."

So whereas venture-capitalists and coders may be rushing to California, others cannot wait to leave. Joseph Vranich, an expert on company relocation, totted up 254 "California disinvestment events" (firms with over 100 workers leaving, or expanding elsewhere when they could have chosen California) in 2011. He reckons 2012 and 2013 will have been worse. For much of the post-war period California's diverse economy, with vibrant manufacturing, aerospace and entertainment industries, was the envy of the world. Today its success is largely limited to the technology sector. Without the job-creation and tax revenues of Silicon Valley, California's much-vaunted recovery would look a lot shakier.

How do the valley's firms thrive in this climate? Partly it is because their cluster effect is as strong as ever. Firms, workers, investors and universities benefit from proximity to one another. And partly it is because many of California's most onerous regulations hit manufacturers hardest and creative types least: iPhones are "designed by Apple in California" but made in Shenzhen. Indeed, Silicon Valley's greenish tech folk are among the biggest supporters of the sort of rules that they can live with, but which make life hard for other types of businesses. To the extent that tech tycoons involve themselves in politics, it is at national rather than state level and comes with a strong whiff of self-interest: witness the push for immigration reform led by Mark Zuckerberg of Facebook. Schumpeter recently met a San Francisco-based CEO who had never been to Sacramento—the state capital, just 90 minutes' drive away—and who had no idea who Mr Brown was.

Though he has helped to make things worse, the governor is not deaf to businesspeople's laments. He has spent the past three years fixing California's state finances, which were in dire shape when he took office. Last year his administration announced several promising measures, including tax credits for manufacturers to buy equipment and for firms to create jobs in poor parts of the state. Mr Brown is resisting calls from members of his Democratic base to ban fracking in the oil-rich Monterey shale formation, which some think could bring a jobs bonanza. "It's like AA," says Ken McNeely, the president of AT&T California. "First we recognise that we have a problem."

Passing reforms will not be easy. In the state legislature's most recent session, the stars seemed aligned for an overhaul of CEQA; even some environmentalists concede that this is necessary. But the state senator shepherding the bill suddenly quit, union allies took charge and the reform that emerged was diluted to homeopathic levels. So it goes, so often, in California.

First, do less harm

It seems unlikely that California will ever challenge the likes of Texas or North Dakota at the top of business-friendliness tables. It is a progressive, high-tax, high-regulation place, and most voters like it that way. So reformers speak not of scrapping CEQA but of making it harder to file frivolous lawsuits; they urge not a relaxation of workplace rules but an end to their capricious implementation. If he wants to ensure that California's recovery lasts, Mr Brown must back these efforts. He must also resist pressure from some Democratic allies for a renewed spending splurge, which might eventually mean even higher business taxes. Above all, he should apply himself to making the daily lives of California's businessfolk a little easier and more predictable. Only then might the rush of businesses out of the Golden State be halted. ■

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China's economy

In three parts

HONG KONG

Some Chinese economic indicators are moving in the right direction; others are not

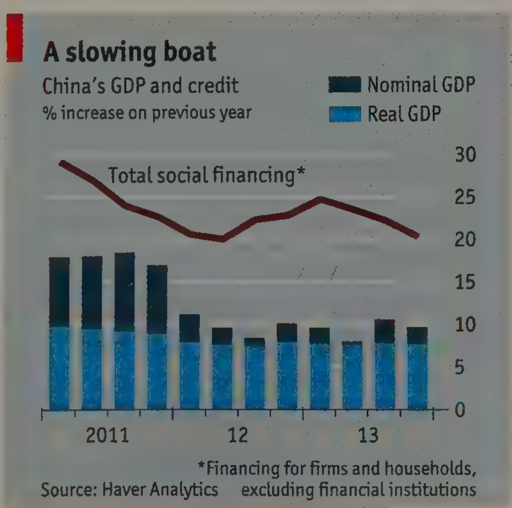
CHINA'S economy, worth over $9 trillion in 2013, divides opinion. Often it divides it neatly in two: optimists contend with pessimists, apologists with alarmists, bulls with bears. Figures released this month encouraged both camps. China's economy grew by 7.7% in 2013, a little faster than once feared. But a widely watched index of manufacturing, published by HSBC, a bank, fell for the fourth month in a row.

This binary split in opinion is too crude. To understand China's economy today, it is more helpful to think in threes. Start, for example, with three forms of growth: in supply, demand and credit. Over the long run, China's economic might depends on the size of its workforce and its productivity. This combination determines how much stuff China can supply without overstretching itself. Numbers released this week confirm that the supply-side limits on growth are gradually tightening.

The country's urban workforce, which produces most of its output, is growing more slowly. The age group from which this workforce springs is now shrinking outright. The population of working age shrank by 2.44m in 2013, having already fallen by several million the year before.

This demographic turning-point (dubbed "peak toil") has contributed to a marked slowdown in China's potential rate of growth from the double-digit tempo of yesteryear. Whether the economy actually fulfils that (diminished) potential depends on a second kind of growth: that of demand. On the one hand, too little spending on goods and services will result in the underemployment of even a shrinking population (witness Japan). On the other hand, too much results in inflation.

By that yardstick, demand in China is still modest. It was enough to increase GDP by just over the government's minimum threshold of 7.5%. But the economy did not grow fast enough to generate any inflationary pressure. Consumer prices rose by only 2.5% in the year to December. Prices paid to producers fell, for the 22nd month in a row. The Chinese economy is not overheating in any conventional sense.



China's excesses take a different form. It is not the growth in demand that worries pessimists, but the growth in credit. The stock of outstanding financing for the private sector grew by about 20% last year, according to the central bank's broad measure (which includes corporate bonds, equity issuance, and a variety of loans by banks and other lenders) even as nominal GDP grew by only 9.5% (see chart). Some of those loans are now turning ugly.

One credit product, sold exclusively through ICBC, China's biggest bank, on behalf of China Credit Trust, a non-bank lender, is poised to default at the end of this month. It raised 3 billion yuan (over $490m) for Zhenfu Energy group, an ill-fated coal-mining venture, the vice-chairman of which was arrested for taking deposits without a licence. Zhenfu cannot repay its debts. The big question that remains is whether the product's buyers, sellers or issuers will bear the loss.

China's credit is not all this bad. And even the bad lending is not all bad in the same way. In fact credit, too, can usefully be divided into three categories, according to how it is spent, argues Richard Werner of Southampton University. Some is spent fruitfully, on new capital and infrastructure, increasing the economy's productive capacity. Because lending of this kind adds to both demand and supply, it should result in higher economic growth without higher inflation.

Another chunk of credit is spent wastefully, either on consumption or on misconceived projects, such as bridges without ▸▸

destinations or coal mines without markets. These loans add nothing to the economy's productive capacity, but they do add to demand. They make a claim on the economy's goods and services, without adding anything to its ability to provide them. Credit of this second kind should, then, result in higher inflation, increasing nominal GDP but not real GDP.

The surprising lack of inflation suggests that much of China's credit is instead of a third kind. It is spent speculatively, on existing assets, real or financial, in the hope they will rise in value. Because these assets already exist, they can be purchased (and repurchased) without adding directly to GDP or straining the economy's capacity to produce new goods and services. Credit and asset prices can chase each other higher, even as consumer prices remain flat.

Because this third kind of credit adds little to economic growth, curbing it need not, in principle, subtract much from growth. China's financial authorities have repeatedly stated their desire to shrink overstretched balance-sheets, especially among mid-tier banks, without discouraging the flow of credit to the "real economy". But although this is entirely feasible in principle, it is a difficult trick to pull off in practice.

Pessimists argue that the government's efforts to curb leverage will stymie growth this year. But these rigours should be offset by stronger exports and consumer spending, both of which have plenty of room for improvement. Foreign trade subtracted from China's growth last year. Consumption, which made the biggest contribution to growth in 2012 and 2011, was once again overshadowed last year by China's traditional engine of demand, investment.

China's dependence on investment remains a worry. But although its pattern of spending showed little sign of rebalancing ▸▸

Buttonwood | The inevitability of instability

A welcome burst of new thinking on financial regulation

THE frequency and severity of financial crises suggest that they are an inevitable part of capitalism. That does not mean policymakers should give up trying to limit the damage they cause. But it should make regulators careful when they try to stabilise the system.

That is the shared conclusion of two thoughtful analyses: a paper* by Marcelo Prates of the Brazilian central bank and a speech** in New Delhi by Adair Turner, a former head of Britain's Financial Services Authority.

A fundamental instability results from the mismatch between the assets banks hold (long-term loans) and their liabilities, in the form of short-term deposits. As Mr Prates comments, "No regulation will ever be able to change this reality, unless a law is passed, for instance, setting the reserve requirements at 100% and prohibiting leverage."

Regulators try to limit the problem with requirements for capital and curbs on leverage, but their rules are constantly overtaken by financial innovation. Such innovation is very hard to assess: unlike new medicines, financial products cannot be tested in advance. If regulators opt not for a rules-based system but for one based on general principles, the result is a lot of uncertainty over what is permitted and what is not.

In their response to the crisis, the American authorities opted for a highly complex regulatory regime, in the form of Dodd-Frank. But Mr Prates points out that each new rule creates a burden for the regulators as well as for the industry; supervisors cannot hope to keep track of all infractions. Each time the rules are evaded, the credibility of the system is reduced.

Mr Prates also quotes the economist J.K. Galbraith: "All crises have involved debt that, in one fashion or another, has

become dangerously out of scale in relation to the underlying means of payment." Lord Turner makes the same argument. Debt is useful, in theory, if it allows business to accumulate capital or consumers to smooth their consumption over their lives. In practice, however, debt is used to finance the purchase of existing assets, leading to bubbles. He cites an estimate that only 15% of British bank lending is used for capital investment.

Individuals may use credit as a means of financing consumption in excess of their income, as was the case with American homeowners in the past decade. This process is self-reinforcing: easier credit drives up asset prices, which makes banks confident and leads them to lend more.

These credit cycles lead to greater volumes in the financial markets, as assets are traded back and forth. Banks end up with an awful lot of claims on each other, a development which added to the panic in 2008. It is hard to see how this extra trading benefits the economy; it certainly does not ensure that asset prices stay in line with economic fundamentals. In a world of (mostly) floating exchange rates, cross-border capital flows add to the problem. Countries are no longer constrained by their trade deficits, at least in the short term; a current-account deficit can be financed with capital flows which help to inflate an asset bubble (the Irish and Spanish housing booms, for example).

The two commentators disagree over how regulators ought best to respond. Lord Turner believes that the issue is "the wrong sort of capital flow" and that this needs to be handled at the national level, with the authorities stepping in to limit excessive credit creation. One approach could be to insist that foreign banks operating in a country do so via separately capitalised subsidiaries. Although this might lead to the "balkanisation" of financial markets, it would at least help to crimp flows of hot money.

Mr Prates, by contrast, thinks that the regulators should focus on minimising the consequences of the next crisis by strengthening the safety net, through deposit insurance (financed by a levy on all relevant institutions, not just deposit-takers), resolution plans for failed institutions and personal liability for the executives of failed banks. A proportion of bonus payments at each bank should be kept in a pool that can be raided if it gets into trouble.

Yet there is no reason why regulators could not follow both of these approaches. It might be more productive than creating ever more complicated regulations for financiers to evade.

* "Why Prudential Regulation Will Fail to Prevent Financial Crises: A Legal Approach", by Marcelo Madureira Prates, November 2013

** "Too Much of the Wrong Sort of Capital Flow", address at the Centre for Advanced Financial Research and Learning, January 2014

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last year, it did at least enjoy a rebalancing of incomes and production. Both migrant workers and rural households saw their incomes grow faster than the economy as a whole. Four years ago, the disposable income of the average urbanite was 3.3 times that of his rural counterpart. That ratio has now fallen to 3.0.

Of greater historical resonance was the shift in production. Last year China's output of services, which contributed 46% of GDP, finally eclipsed the output of its industry (44%). An economy based predominantly on making things for people now gets more out of doing things for them. Indeed, China's fastest-growing sector last year was wholesaling and retailing, which expanded at a double-digit rate. In the workshop of the world, growing numbers now work in shops. Services are known as "the tertiary sector" (whereas agriculture is "primary" and industry "secondary"). It is this long neglected third piece of China's economy that will prove the optimists right in 2014. ■

Canadian sovereign-wealth funds

The year of the ant

OTTAWA

Resource-rich provinces in Canada are becoming more parsimonious

TWENTY years before Norway began stashing away oil and gas revenue for future generations, the Canadian province of Alberta set up a sovereign-wealth fund (SWF), as such state-owned hoards are known. Sadly, the Heritage Savings Trust Fund has not lived up to expectations. Although it has been around since 1976, it contains only C$16.8 billion ($15.3 billion). Norway's stripling SWF, in contrast, has already accumulated a national nest-egg of $800 billion. Other Canadian provinces are now setting up SWFs—and trying to learn from Alberta's mistakes.

Canada's constitution gives the provinces authority over natural resources, including the right to retain any royalties or taxes they levy on their exploitation. The provinces have long acted like the grasshopper of Aesop's fable, merrily spending revenues from resources as fast as they came in, with little thought for the future. That was the problem with Alberta's fund: provincial politicians failed to pay into it regularly, or, worse, raided it when short of cash. Yet Alberta and several others are now trying to behave more like the sensible ant of the fable. The Northwest Territories is setting up an SWF; Quebec has decided to deposit mining royalties into a fund that already collects the province's revenues from hydropower, and both Saskatchewan and British Columbia are mulling SWFs of their own.

Starting a fund is one thing; structuring it well and managing it wisely is something else. To that end, Alberta set up the Alberta Investment Management Corporation in 2008 to run the SWF on commercial lines, along with various pension funds for local civil servants. In 2012 the provincial assembly passed a law requiring the government to deposit a certain share of the revenues from oil, gas and mining into it. The fund also has clear mandates about what it should be investing in, and explicit benchmarks for its manager to meet. It achieved a return of 11.6% net of fees in the year to March 31st 2013, although its performance since then has been less impressive.

Quebec's SWF, the Generations Fund, returned 8.4% in the last fiscal year. The separatist Parti Québécois had campaigned on a promise to eliminate it, but instead decided to expand it after forming the provincial government in 2012. From next year the government will start depositing mining royalties in addition to those from hydropower concessions and profits from Hydro-Québec, a utility owned by the province. As in Alberta, Quebec's fund, which is valued at C$5.2 billion, is managed at arm's length by an independent agency.

Michael Miltenberger, the finance minister of the Northwest Territories, is helping to design its SWF. He says a rule barring withdrawals from the fund for its first 20 years has been adopted with Alberta's experience in mind. There will also be strict limits on how much can be withdrawn thereafter. "I wanted to make it as politically tamper-proof as possible," he says.

Peter MacKinnon, who is advising the government of Saskatchewan about establishing an SWF, says it is important not to give preference to investments within the province. He also suggests that smaller funds outsource their investment strategy, as the overheads of keeping managers in house are too high. He tends to raise Alberta as an example of what not to do. If Alberta's current leaders are serious about making the transformation from grasshopper to ant they might want to give his report a read. ■

Generating for future generations

Bankia

From a low base

MADRID

The lender at the heart of Spain's bank bail-out begins to recover

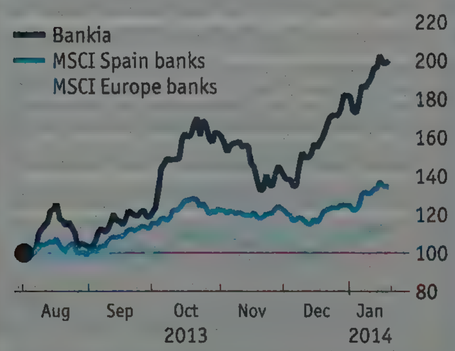
TURNING around Bankia, explains the Spanish bank's boss, José Ignacio Goirigolzarri, is like cycling the Tourmalet, one of the most fearsome ascents on the route of the Tour de France. "You look below and wonder at how far you've come," he says, "but looking up you can see just how much is left to do."

Bankia has indeed come a long way since 2012, when the government spent €18 billion ($24 billion) rescuing its parent, BFA, including €10.6 billion that was passed to Bankia. At the time Spain was deep in the second trough of a double-dip recession. Its banks were so addled with bad debts, many stemming from a monumental property bust, that the government had to borrow €41 billion from its fellow euro-zone members to recapitalise them.

The euro zone's offer of more lending, which formally lapsed on January 23rd, has not been needed. The economy is now growing again, albeit slowly. So is Bankia, by some measures. It is adding 13,000 new clients every month. Its share of new loans to businesses increased marginally last year, to 6%. This is particularly impressive given that it has closed 38% of its branches and cut its staff by more than a fifth in less ▸▸

On the up

Share prices, August 1st 2013=100



Source: Thomson Reuters

than a year, losing just 5% of deposits in the process. Its costs have fallen by more than those of any other big southern European bank, according to Nomura.

And the bank is profitable again, albeit only marginally. It and BFA earned €648m in the first nine months of 2013. Its shares have nearly doubled in price since August (see chart). They now trade at a premium to other Spanish banks, according to J.P. Morgan. This month it raised €1 billion in the bond markets—double its initial target.

The jump in Bankia's share price has raised hopes that the government will recover some of the €22.4 billion it has sunk into BFA. At current prices, BFA's 68% stake in Bankia is worth €10 billion. Mr Goirigolzarri says the sale of a stake of 5-10% might be possible this year under the right conditions. But the decision, he notes, rests with the government.

Bankia is not yet trouble-free. Although it sloughed off a pile of bad debts to Sareb, Spain's "bad bank", problem loans still account for 13.6% of its portfolio, more than the national average. Yet the rate of default has stabilised—something that is not true of many of Spain's banks. Bankia has also made more provisions than most. "The size of the bail-out shocked some people in the market," says Mr Goirigolzarri, "but time puts everyone in their place."

He wants Bankia and BFA to raise profits to €1.2 billion by 2015. Fewer provisions for bad loans and reduced funding costs, now that a price war for deposits has subsided, should help. But a quarter of Bankia's income from lending (as opposed to fees) is from the "carry trade": borrowing cheaply from the European Central Bank to buy higher-yielding Spanish government debt. That opportunity will diminish as the government's borrowing costs fall.

Bankia is hoping to win more customers with its "agile branches", which focus on simple transactions and stay open all day (Spanish banks typically close at 2pm). That should help cut queues in other branches, which will be freed to concentrate on the most profitable clients. Bankia's new managers were shocked to discover it had an "extraordinary" database on its clients that was barely being used.

Still, a big leap in lending looks unlikely in a country with 26% unemployment and weak demand for credit. Bankia has already slimmed its balance-sheet by €27 billion since 2012, and hopes to trim it by another €30 billion, bringing the total reduction to almost 20%.

Bankia's bail-out still smarts for the thousands of small savers who lost their shirts investing in the bank's IPO, in 2011, or in its preference shares, bond-like instruments which were converted to ordinary equity at a hefty discount last year. (The haircuts were a condition of the government's €100 billion line of credit from the euro zone). Some investors have recovered their money via arbitration, but others have sued, claiming managers misled them. The recent rise in Bankia's share price is reducing the sting somewhat. At any rate, Bankia employees no longer work to the sound of protesters outside their headquarters in Madrid. ■

South Korean credit-card data

Card sharps

SEOUL

An enormous data heist may dim Koreans' love affair with credit cards

BOWING in unison before cameras and customers, the heads of three big South Korean credit-card firms—KB Kookmin Card, Lotte Card and NH Nonghyup Card—apologised, then resigned, on January 20th. Over 20 executives followed.

The synchronised hand-wringing was over one of Korea's largest-ever thefts of customer data. On January 8th prosecutors arrested an IT contractor for stealing the personal information of around 20m

Bowing out

credit-card holders—more than half the working-age population. While working for the Korea Credit Bureau, which evaluates risk for the three card companies, he is said to have transferred details from 104m accounts onto a USB stick over a year, from May 2012. The managers of two marketing companies have been charged with buying the stolen records.

The government has set up a taskforce to "overhaul" the current data-protection rules and to toughen penalties. In the meantime it wants the three firms to be barred from signing up new customers for three months. It has also assured cardholders that no illicit payments have been reported since the first leak six months ago. The 18 types of stolen data—card numbers, expiry dates, e-mail addresses and salaries among them—did not include PIN or card-verification codes, leaving only a "slim" chance for misuse. Still, 2.6m requests to reissue or cancel cards were made in three days. The three firms have promised compensation. Nonetheless, on January 20th, 130 victims sued them. Lawyers say proving damage will be tricky.

South Korea is no stranger to data theft. In 2011 the personal information of 35m Koreans was stolen from Cyworld, then the country's most popular social network. Details about millions of users have also been plundered from an online shop, a games developer and a mobile-phone operator.

The scale of this latest incident has revealed the financial sector's vulnerability. Information was stripped from closed accounts (financial firms can hold on to it for up to five years), as well as from failed card applications. Oh Hee-kuk, head of the Korea Institute of Information Security & Cryptology, says "management neglect" is the biggest problem. In 2012 a law was passed requiring the encryption of most companies' databases, yet the filched data were not encoded. The contractor should never have been given access to customer records, he says; dummy data would have sufficed. Many Korean firms do not allow USB sticks into their premises; some remove USB ports and disc drives from their computers altogether. None of the three companies noticed the theft.

Lax data management is a worry in the world's most plastic-happy country (there are roughly five credit cards for every Korean). Encouraged by the government a decade ago as a way to limit tax evasion, credit cards account for over half of all consumer spending. They are already losing ground to debit cards, which now receive bigger tax breaks. For some, the perks that come with many credit cards, such as free concierge services, cosmetics and air-miles, make keeping a wallet-full worthwhile. But continued security breaches may prompt others to question the national passion for plastic. ■

Tax breaks

Bribing the taxpayer

Wasteful tax perks are sadly common

ANY talk of tax reform in America quickly turns to "tax expenditures", meaning the code's myriad exemptions, deductions and credits. These now cost 7% of GDP. Economists deride many of them as handouts for influential firms and middle-class voters. But for just that reason, politicians are reluctant to curb them. A new paper from the IMF suggests other countries have much the same problem.

America, it turns out, is not the most profligate provider of tax breaks. Australia and Italy spend more on them, as a proportion of their GDP. Britain and Spain are not far behind. The bulk of the spending goes on individual income-tax relief for things like saving for pensions and interest payments on mortgages.

That Europe still spends lavishly on tax discounts in spite of its fiscal problems is especially striking. Italy gives away €1.8 billion ($2.4 billion) each year on tax breaks for farmers alone. Germany spends over €2 billion a year subsidising bonus payments for working evenings and weekends—an incentive first introduced by the Nazis to boost munitions production during the second world war.

The financial crisis has been a missed opportunity to cut this sort of outdated largesse, says Pierre Leblanc of the OECD. While some countries have trimmed them to help cut their deficits, others, like Britain and France, have introduced new ones to encourage investment. Overall, they remain at a similar level to before the crisis.

The IMF argues that now is the time to roll back tax breaks to help cut budget deficits. Regular review would increase scrutiny of outdated perks. Many could be replaced with more targeted measures: most of the benefit is currently enjoyed by the rich rather than those needing help. For instance, over half of income-tax breaks in America go to the richest 20% of households, according to the Congressional Budget Office. The poorest 20% are left with just 8% of the pie.

Spain is reviewing its tax expenditures as part of its austerity drive. But Italy is a more typical case. The IMF sees scope for making savings of up to €61 billion. Yet the latest budget law, passed last month, requires tax breaks to be pruned by just €10 billion by 2017. Even that proved politically unpalatable: on January 21st the government was reported to be rescinding the planned cuts. Higher taxes, it seems, are unpopular everywhere. ■

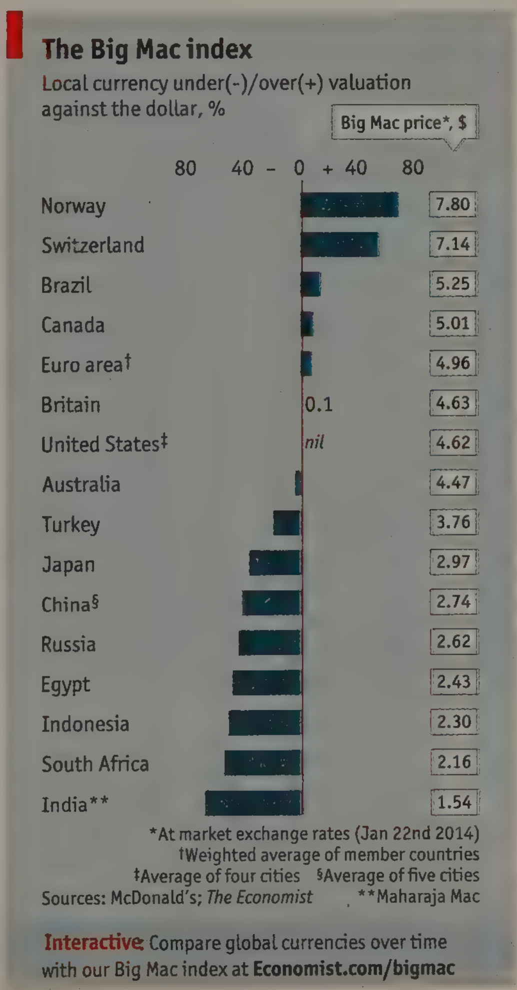
The Big Mac index

Grease-proof taper

Our bun-loving guide to currencies

LAST summer mere talk from the Federal Reserve about "tapering" (ie, phasing out) its monetary stimulus through asset purchases was enough to fry emerging-market currencies. The exchange rates of the "fragile five"—Brazil, India, Indonesia, South Africa and Turkey—fell sharply. Now that tapering has, belatedly, commenced this month, which currencies look susceptible to further grilling?

The Big Mac index, *The Economist*'s gauge of exchange rates, offers some food for thought. The index is based on the theory of purchasing-power parity (PPP), which holds that currencies should in the long run adjust to rates that would make a basket of goods and services cost the same wherever they were bought. Our basket contains just one item, a Big Mac, since its ingredients are the same the world over, except in India, where the Maharaja Mac is made of chicken. Because buying a Big Mac in Norway, for instance, costs $7.80 at market exchange rates compared with $4.62 in America, our index suggests that the Norwegian krone is almost 70% overvalued.



Of the fragile five, Brazil looks the most vulnerable, because a Big Mac there costs $5.25, implying that the real is overheated by 13%. The other four all have undervalued currencies, to varying degrees. The Indonesian rupiah, the South African rand and the Indian rupee are undercooked by 50% or more.

In the short term, however, it is financial and economic factors, together with confidence or lack of it, that hold sway in currency markets. Brazil is running a current-account deficit of 3% of GDP, but it has a healthy stockpile of foreign-exchange reserves to call upon if necessary. Though the credibility of the Brazilian government has been eroded, the central bank has clawed back some respect by pushing through interest-rate rises.

In contrast, both Turkey and South Africa are running current-account deficits (as shares of their GDP) that are twice as large as Brazil's. Their foreign-exchange reserves are much smaller than Brazil's when gauged against their external-financing requirements. The Turkish lira, which has been plummeting in recent days, has also been affected by the central bank's stubborn refusal to raise interest rates, along with a more general loss of confidence in the Turkish government. The lira has been among the worst performers of the currencies in our index over the past year; as a result, it has swung from 9% overvalued to 19% undervalued.

Although new forecasts from the International Monetary Fund (IMF) this week envisage an increase in global growth from 3% in 2013 to 3.7% in 2014, the demand for commodities is likely to remain restrained. That has already been affecting the currencies of economies that are rich in resources, such as Australia and Canada. Declines in the Australian dollar since it peaked in 2011 mean that it is now undervalued, by 3% according to our index. By contrast the Canadian dollar, which has been dropping sharply in recent weeks, remains overvalued, by 8%.

The IMF is predicting growth for the euro area of just 1% this year. That forecast chimes with the message from the Big Mac index, which finds that the single currency is overvalued, by 7%. The strength of the euro is unwelcome for exporters and casts a shadow over a recovery in the 18-country zone that is already proving to be feeble and faltering. By contrast the British pound is at the right level, according to the index, which should help the much sturdier growth the IMF now expects in Britain this year, of 2.4%.

Our Big Mac index will soon be beefed up with the addition of the Vietnamese dong as McDonald's is soon to open its first branch in Vietnam, the first new country to welcome the golden arches in 15 years. Ketchup on this new entry to our index online next month. ■

Free exchange | Risk off

Why some people are more cautious with their finances than others

RISK has always had a bit of an image problem. It is associated in the popular mind with gamblers, skydivers and, more recently, the overpaid bankers who crippled the global economy. Yet long-term economic growth would be impossible without people willing to wager all they have by starting a business, expanding an existing one or trying to invent a better mousetrap. Such risk-taking has been disturbingly scarce in America of late: the number of self-employed workers, job-creation at start-ups and the sums invested in businesses have been low.

Though changing appetites for risk are central to booms and busts, economists have found it hard to explain their determinants. Instead, they tend to cite John Maynard Keynes's catchy but uncrunchy talk of "animal spirits". Recent advances in behavioural economics, however, are changing that.

Economists have long known that people are risk-averse: Daniel Bernoulli, a Swiss mathematician, observed as much in the 18th century. Consider this simple test: given the choice, would you prefer a gift of \$50, or to play a game with a 50% chance of winning \$120? It might seem logical to pick the second, since the average pay-off—\$60—is bigger. In practice, most people choose the first, preferring a small but certain payment to a larger but uncertain one.

Yet the willingness to run risks varies enormously among individuals and over time. At least some of this variation is inherited. One study of twins in Sweden found that identical ones had a closer propensity to invest in shares than fraternal ones, implying that genetics explains a third of the difference in risk-taking.

Upbringing, environment and experience also play a part. Research consistently finds, for example, that the educated and the rich are more daring financially. So are men, but apparently not for genetic reasons. Alison Booth of Australian National University and Patrick Nolen of the University of Essex found that teenage girls at single-sex schools were less risk-averse than those at co-ed schools, which they think may be due to the absence of "culturally driven norms and beliefs about the appropriate mode of female behaviour".

People's financial history has a strong impact on their taste for risk. Looking at surveys of American household finances from 1960 to 2007, Ulrike Malmendier of the University of California at Berkeley and Stefan Nagel, now at the University of Michigan, found that people who experienced high returns on the stockmarket earlier in life were, years later, likelier to report a higher tolerance for risk, to own shares and to invest a bigger slice of their assets in shares.

But exposure to economic turmoil appears to dampen people's appetite for risk irrespective of their personal financial losses. That is the conclusion of a paper by Samuli Knüpfer of London Business School and two co-authors. In the early 1990s a severe recession caused Finland's GDP to sink by 10% and unemployment to soar from 3% to 16%. Using detailed data on tax, unemployment and military conscription, the authors were able to analyse the investment choices of those affected by Finland's "Great Depression". Controlling for age, education, gender and marital status, they found that those in occupations, industries and regions hit harder by unemployment were less likely to own stocks a decade later. Individuals' personal misfortunes, however, could explain at most half of the variation in stock ownership, the authors reckon. They attribute the remainder to "changes in beliefs and preferences" that are not easily measured.

This seems consistent with a growing body of research that links a low tolerance of risk to past emotional trauma. Studies have found, for example, that natural disasters such as the tsunami that hit South-East Asia in 2004 and military conflicts such as the Korean war can render their victims more cautious for years.

The same seems to be true for financial trauma. Luigi Guiso of the Einaudi Institute for Economics and Finance and two co-authors examined the investments of several hundred clients of a large Italian bank in 2007 and again in 2009 (ie, before and after the plunge in global stockmarkets). The authors also asked the clients about their attitudes towards risk and got them to play a game modelled on a television show in which they could either pocket a small but guaranteed prize or gamble on winning a bigger one. Risk aversion, by these measures, rose sharply after the crash, even among investors who had suffered no losses in the stockmarket. The reaction to the financial crisis, the authors conclude, looked less like a proportionate response to the losses suffered and "more like old-fashioned 'panic'."

Horror story

The authors' conclusions were reinforced by a separate test administered to a few hundred university students. About half were asked to watch a five-minute excerpt of a gruesome torture scene from a horror film. Then, the entire group answered the same questions about risk as the Italian bank's clients. Watching the horror movie increased the students' aversion to risk by roughly as much as the financial crisis had chastened the bank's clients, although not among those who claimed to like horror movies.

These studies suggest that the sweep and severity of the recent slumps in America and Europe will scar a wide range of people, not just those who lost money in the markets. The financial crisis is likely to inhibit them from taking the sort of risks that help propel the economy for decades to to come. Regulators and policymakers may soon be worrying about the lack of risk-takers, not fretting about their excesses. ■

Studies cited in this article can be found at www.economist.com/risk14

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Malaria eradication

Cure all?

GRANDE COMORE

A novel approach, using drugs instead of insecticides, may make it easier to eliminate malaria. But it is not without controversy

WHAT if it were possible to get rid of malaria? Not just bring it under control, but wipe it from the face of the Earth, saving 660,000 lives a year, stopping hitherto endless suffering, and abolishing a barrier to economic development reckoned by the World Bank to cost Africa $12 billion a year in lost production and opportunity? It is an alluring prize, and one that Li Guoqiao, of Guangzhou University of Chinese Medicine, thinks within reach.

Dr Li is one of the researchers who turned a Chinese herbal treatment for the disease into artemisinin, one of the most effective antimalarial drugs yet invented. Now he is supervising experiments in the Comoros, using a combination drug therapy based on artemisinin, to see if malaria can be eradicated from that island country. If it works, he hopes to move on to somewhere on the African mainland, and attempt to repeat the process there.

The current approach to dealing with malaria is to control the mosquitoes (one of which is pictured above) that spread it—either by killing them with chemical insecticides or by draining the bodies of stagnant water that their larvae live in. That has worked in many places. In Europe, for example, malaria once existed as far north as Murmansk, in Russia. Now it is rare-to-non-existent. But it was never the plague in Europe that it is in Africa, and on that continent mosquito-control programmes may need a helping hand.

Dr Li's approach is to attack not the mosquito, but the disease-causing parasite itself. This parasite's life cycle alternates between its insect host (the mosquito) and its vertebrate one (human beings). Crucially, as far as is known, humans are its only vertebrate host. Deny it them and it will, perforce, wither away—an approach that worked for the smallpox virus, which had a similarly picky appetite. In the case of smallpox, a vaccine was used to make humans hostile territory for the pathogen. Since there is no vaccine against malaria, Dr Li is instead using drugs.

A combined assault

The drugs in question are artemisinin and a second antimalarial called piperaquine—a combination made and sold under the brand name "Artequick" by Artepharm, a firm based in Guangdong which Dr Li helped found. Adding piperaquine to the mix reduces the risk of a strain of parasite resistant to artemisinin evolving, because the chance that an individual parasite will be immune to both forms of attack is negligible. (A similar approach is employed in the combination therapies used to treat HIV infection.)

To deny the parasites their human hosts long enough to exterminate them in a given area, the researchers administer three doses of Artequick, spaced a month apart. To add extra power, the first dose is accompanied by a third drug, primaquine. Dr Li and his colleagues call this approach Fast Elimination of Malaria through Source Eradication, or FEMSE.

And it works—almost. The Comoros has three islands: Moheli, Anjouan and Grande Comore. Before the experiment started, more than 90% of the inhabitants of some villages on these islands had malaria. Song Jianping, Dr Li's lieutenant in the Comoros, blitzed Moheli with Artequick in 2007. The number of cases there fell by 95%, though reinfection from other islands caused a small subsequent rebound. In 2012 he did the same thing on Anjouan. There, the number of cases fell by 97%. In October 2013 the campaign moved to Grande Comore, the most populous island. When the process is complete there, nearly all of the 700,000 Comorans will have taken part in FEMSE.

Ninety-five percent, or even 97%, is not eradication. But it is an enormous improvement and creates a position from which eradication can be contemplated. To do that, though, means keeping an effective surveillance programme permanently in being so that those who become infected can be treated quickly, to stop them spreading the parasite.

That is especially important, in the view of Yao Kassankogno, the World Health Organisation's representative in the Comoros, because eradicating malaria will stop people building up immunity to the disease as children. Almost everyone in a place like the Comoros gets infected as a child, and the immune systems of those who survive thus learn to combat the disease, meaning that for many people subsequent bouts are not much worse than catching a cold. If malaria did return after a longish period of absence, Dr Kassankogno fears it could wreak havoc.

Whether FEMSE, or something similar, could be made to work on the African ▸▸

mainland—or anywhere else that is not an isolated island—will also depend on this sort of long-term monitoring, for in that case leakage from the outside would mean even 100% local eradication would not be enough to eliminate the parasites. In the case of the Comoros, not everyone is convinced sufficient surveillance is happening. Dr Kassankogno says the government's current surveillance for the disease is weak. Dr Song, however, says that his team has trained more than 200 Comorans to monitor rates of malaria, with a view to detecting and preventing its return.

Safe and sound?

A more immediate concern is the safety of the drugs. Artemisinin and piperaquine are pretty safe, but primaquine ruptures red blood cells in people with a deficiency of an enzyme called G6PD. That can kill. And a lot of Africans—in particular, 15% of Comorans—are G6PD-deficient.

Andrea Bosman, the head of the diagnosis, treatment and vaccines unit of the global malaria programme at the World Health Organisation, is critical of the experiment's approach to looking for side-effects. He says neither the scientists running it nor the Comoran government have been monitoring side-effects from the drugs in a systematic way. That, in Dr Bosman's view, not only risks harming participating Comorans, it is also a missed opportunity to learn lessons from the project that would be of help to other countries in the fight against malaria.

Dr Song does not, however, believe side-effects will be a problem, because the dose he uses is so low. He also says he has seen no evidence of side-effects, though one hospital in Grande Comore said that the number of patients it treated doubled in the week after the drug-administration programme began, with people reporting nausea, fever, stomach and back pain, headaches and chills. These are symptoms of red-blood-cell rupture, but some are also common side-effects of artemisinin, so would be expected anyway.

Four deaths that occurred shortly after people took the drugs have been reported. There is no evidence that these were any more than coincidence, but family members seem reluctant to talk about them with journalists. Fouad Mhadji, the country's health minister, shows no similar reluctance. He says the four in question died of natural causes: "One of them had the problem of cancer. One had the problem of hepatitis B. The flu was not only in the Comoros. It was also in the region of the Indian Ocean."

There is also the question of informed consent to the drugs. Smallpox vaccination permanently protected the person being vaccinated. There was thus an individual as well as a collective benefit to offset any possible side-effects. Prophylactic drug treatment protects only for as long as the drugs stay in the body—which is a few weeks (and explains the need for three rounds of treatment). Dr Song's results suggest the benefit is real. But it is a collective benefit. That changes the moral calculus. On the one hand, there is the risk of healthy people being harmed by side-effects. On the other, there is the risk of their free-riding, by taking the collective benefits while not taking the drugs themselves.

To avoid such free-riding, a lot of official encouragement to participate has happened—encouragement some people regard as tipping over into pressure and propaganda. In a public meeting in Niumadzaha, a village in the south of Grande Comore, for example, the chief doctor of the local health centre shouted through a megaphone: "This drug is safe and effective. You are not being used as guinea pigs. The WHO would not allow this administration to happen if you were being used as guinea pigs."

Certainly, there is a lot riding on the project. Dr Mhadji says FEMSE will save the Comoros $11m a year in direct and indirect costs (for comparison, its annual health-care budget is $7.6m), as well as preserving many lives that would otherwise have been lost and saving survivors from the brain damage malaria can cause. The eradication of malaria will also, he hopes, make the Comoros more attractive as a destination for tourists.

Others hope to profit, too. Artepharm has high expectations of Artequick and is using the drug's success in the Comoros in its marketing campaigns in South America, South-East Asia and Africa. Moreover, the arm of the Chinese government that administers that country's foreign aid, and is thus helping pay for the project, is the Ministry of Commerce—for Chinese largesse is more explicitly tied to the promotion of the country's business than is aid from most Western countries.

Not that the West is a disinterested party, for Western firms, too, manufacture artemisinin-based malaria therapies. On that point Dr Mhadji has strong views. He dismisses criticism of the experiment as fuelled by competition between Western and Chinese pharmaceutical companies.

As Nick White, a malaria researcher at Oxford University's School of Tropical Medicine who has been working for years on eradicating malaria, says, "This research is radical. It is controversial. It is led by a very famous Chinese physician and investigator. There are lots of very serious questions here and a lot of unknowns." Or, as Oscar Wilde more succinctly put it, "The truth is rarely pure and never simple." ■

Dracunculiasis

Good riddance

A nasty disease is about to be history

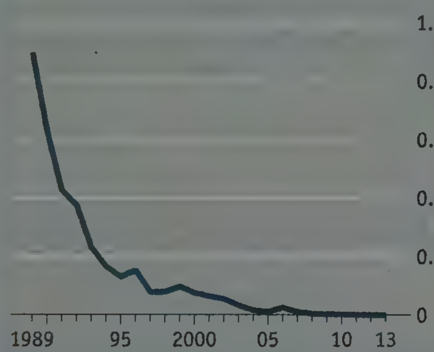
MALARIA is still a long way from eradication (see previous article). But dracunculiasis is almost gone. According to a report published on January 16th by the Carter Centre, an American charity, only 148 people now harbour Guinea worm, which causes it.

Guinea worms are nematodes that grow under the skins of their human hosts, to a length (if female) of half a metre or more, before emerging over the course of several days in a filament from which pieces break off and shed larvae. These larvae, if they reach water, are then consumed by tiny crustaceans called copepods. If an infested copepod is drunk by someone who has not filtered his water properly, the larvae migrate to his skin and the cycle starts again.

Dracunculiasis is rarely fatal, but it is debilitating. So in 1986 the Carter Centre organised a campaign, which it still leads, to eradicate it. This is possible because (as with malaria) humans are the only vertebrate host. The worm's life cycle can thus be interrupted by identifying those infested, and stopping the worm breaking up as it emerges from them. That, plus cleaning up the water, has reduced the number of cases from 900,000 in 20 countries, in 1989, to today's handful. Most (113) are in South Sudan, with isolated others in Chad, Ethiopia and Mali. No expected eradication date has been set, and the political situation in South Sudan adds a layer of uncertainty, but with luck the next few years should see the annihilation of the Guinea worm—and with it dracunculiasis.

Slaying the dragon

Reported cases of dracunculiasis, m



Source: Carter Centre

Acacia, ants and antibiotics

Protect and survive

Another twist in one of nature's best-known partnerships

THE symbiosis between bullhorn acacias and *Pseudomyrmex ferruginea*, the bullhorn acacia ant, is the stuff of biological legend. The acacias provide the ants with food, in the form of protein, fat and sugar secreted for their delectation by special organs called Beltian bodies, and also with homes, in the hollow thorns which give the plant its name. The ants reciprocate by stinging anything—from other insects to cattle—that dares try to eat the acacia's leaves. The latest research, though, suggests that the ants do more than just drive away herbivores. They also act as a sort of immune system which protects acacias from infection.

This discovery, reported in *New Phytologist* by Marcia Gonzalez-Teuber of La Serena University, in Chile, dates back to an observation made a decade ago that macaranga trees, which have similar symbiotic relations with ants, seem immune to a particular fungus when ants are present, but not when they aren't. Dr Gonzalez-Teuber wondered if something like this was true of acacias—and if it was, why.

To try to find out she chose ten wild acacia plants in the state of Oaxaca, in Mexico, and evicted the ants from one branch of each by plucking them off, removing the thorns, and stopping them returning by coating the base of the branch with a sticky substance that traps insects. As a control she sliced the thorns off a second branch, but left the ants free to roam over it.

After six weeks, she found that 45% of the leaves on the experimental branches showed signs of infection, compared with 14% of those (including the thornless controls) over which ants could roam freely. And when she tried culturing micro-organisms from leaves taken from the various branches she showed that those from branches without ants were more heavily infected with known plant pathogens.

The reason, she discovered, was on the ants' legs. When she and her colleagues amputated some of these, washed them in methanol to see what they could extract, and applied the result to colonies of micro-organisms cultured from acacia leaves, they found that the extract eradicated many of those colonies. When they analysed the extract they discovered it contained several types of bacteria known to synthesise antibiotics. The ants, then, by acting as hosts to these bacteria, are protecting their own hosts from the attentions of other micro-organisms—and making the legend of their mutual relationship with acacias grow yet further in the telling. ■

Home, sweet home

Computer security

Spam in the fridge

When the internet of things misbehaves

"THE internet of things" is one of the buzziest bits of jargon around in consumer electronics. The idea is to put computers in all kinds of products—televisions, washing machines, thermostats, refrigerators—that have not, traditionally, been computerised, and then connect those products to the internet.

If you are in marketing, this is a great idea. Being able to browse the internet from your television, switch on your washing machine from the office or have your fridge e-mail you to say that you are running out of orange juice is a good way to sell more televisions, washing machines and fridges. If you are a computer-security researcher, though, it is a little worrying. For, as owners of desktop computers are all too aware, the internet is a two-way street. Once a device is online, people other than its owners may be able to connect to it and persuade it to do their bidding.

On January 16th a computer-security company called Proofpoint said it had seen exactly that happening. It reported the existence of a group of compromised computers which was at least partly comprised of smart devices, including home routers, burglar alarms, webcams and a refrigerator. The devices were being used to send spam and "phishing" e-mails, which contain malware that tries to steal useful information such as passwords.

The network is not particularly big, as these things go. It contains around 100,000 devices and has sent about 750,000 e-mails. But it is a proof of concept, and may be a harbinger of worse to come—for the computers in smart devices make tempting targets for writers of malware. Security is often lax, or non-existent. Many of the computers identified by Proofpoint seem to have been hacked by trying the factory-set usernames and passwords that buyers are supposed to change. (Most never bother.) The computers in smart devices are based on a small selection of cheap off-the-shelf hardware and usually run standard software. This means that compromising one is likely to compromise many others at the same time. And smart devices lack many of the protections available to desktop computers, which can run antivirus programs and which receive regular security updates from software-makers.

Ross Anderson, a computer-security researcher at Cambridge University, has been worrying about the risks of smart devices for years. Spam e-mails are bad enough, but worse is possible. Smart devices are full-fledged computers. That means there is no reason why they could not do everything a compromised desktop can be persuaded to do—host child pornography, say, or hold websites hostage by flooding them with useless data. And it is possible to dream up even more serious security threats. "What happens if someone writes some malware that takes over air conditioners, and then turns them on and off remotely?" says Dr Anderson. "You could bring down a power grid if you wanted to."

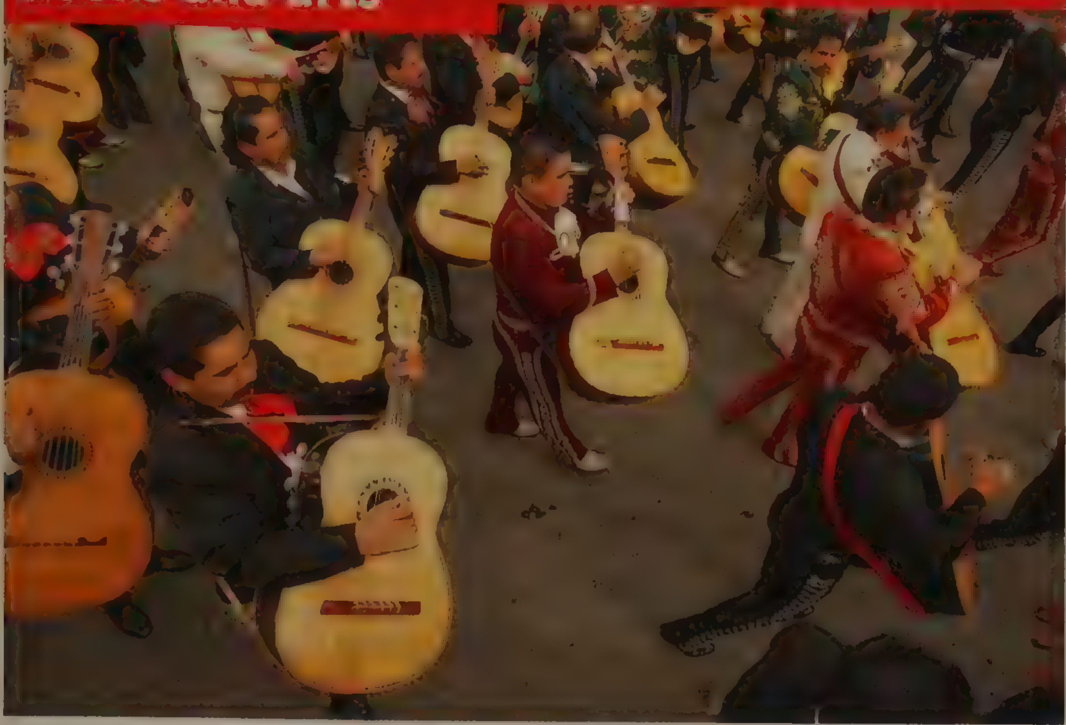
That may sound paranoid, but in computer security today's paranoia is often tomorrow's reality. For now, says Dr Anderson, the economics of the smart-device business mean that few sellers are taking security seriously. Proper security costs money, after all, and makes it harder to get products promptly to market. He would like legislation compelling sellers to ensure that any device which can be connected to the internet is secure. That would place liability for hacks squarely on the sellers' shoulders. For now, he has had no luck. But Proofpoint's discovery seems unlikely to be a one-off. ■

The Richard Casement internship

We invite applications for the 2014 Richard Casement internship. We are looking for a would-be journalist to spend three months of the summer working on the newspaper in London, writing about science and technology.

Applicants should write a letter introducing themselves and an original article of about 600 words that they think would be suitable for publication in the Science and Technology section. They should be prepared to come for an interview in London or New York, at their own expense. A stipend of £2,000 a month will be paid to the successful candidate.

Applications must reach us by February 7th. These should be sent to: casement2014@economist.com



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The making of America

March of history

An uncomfortable account of how Hispanic immigrants shaped America

Our America: A Hispanic History of the United States. By Felipe Fernández-Armesto. *W.W. Norton; 416 pages; $27.95*

THERE was something a bit grudging about America's conquest of Puerto Rico in 1898, after a short war with Spain. The "so-called white" inhabitants, the first American military governor sniffed, looked as if they had "Indian blood". A commander of the defeated Spanish forces was just as contemptuous. Locals went from being "fervently Spanish" to "enthusiastically American" in 24 hours.

Both sides missed the import of the moment, argues a new Hispanic history of the United States, the very title of which, "Our America", sounds like a challenge to a fight. The rising superpower had just seized a colony far older than any English settlement on the North American mainland. The island of Puerto Rico became Spanish in 1508, almost a century before English buccaneer-adventurers splashed ashore at Jamestown in Virginia. Not only that, but settlements like Jamestown—a fortified trading-post, built explicitly for profit—had been founded in conscious imitation of Spanish colonial practices in the Americas, says the author, Felipe Fernández-Armesto, a British academic based at Notre Dame University in Indiana.

The book takes aim at the founding myths of America that run exclusively from east to west. Those myths begin with ocean-crossings by pious, liberty-loving Englishmen. They dwell on the miracle of the Revolutionary War, in which bewigged patriots defeated vastly larger British forces. The myths end with wagon-trains rumbling across the Prairies and railways cutting through the Rockies, opening a continent to such Anglo-American virtues as rugged individualism and the plain-spoken certainties of the common law.

The book sets out to show how such tales ignore a parallel history of America that runs from south to north, embraces different values and has—for unbroken centuries—spoken Spanish. With startling facts and jaw-dropping tales of courage and depravity, the author triumphantly rescues Hispanic America from obscurity.

Spanish conquistadors brought horses to the Great Plains as early as 1540, showing native Americans in present-day Kansas how horsemen with spears could kill 500 buffalo in a fortnight. By 1630 a Franciscan mission in New Mexico claimed to have baptised 86,000 Indians in one summer. To repel French, British and Russian rivals, Spain built forts from Florida to the north-western coasts of what is today British Columbia. Catholic missions ran vast cattle ranches and planted California's first citrus groves and vines. It was not just the French who helped George Washington's armies defeat the British crown. Spanish forces harried the redcoats from Florida to Michigan, the book records, while Spanish gold bankrolled the siege at Yorktown (the newly founded town of Los Angeles, a continent away, sent $15 for the war effort).

Spanish rule was often pretty sketchy. One 18th-century frontier governor was a friendly Apache chief, while Spain's agent in the Upper Missouri was a mystic from Wales, hunting for the Welsh-speaking descendants of a prince who, myth had it, crossed the Atlantic to escape the English 600 years earlier. Colonial bosses, soldiers and missionaries were not kindly men: Indians, in particular, died in large numbers from disease, exploitation and armed conflict. But the book makes a case that a rough-hewn paternalist pragmatism mostly prevailed in Hispanic America. Slavery was shunned (and in 1821 outlawed by newly-independent Mexico). Spanish officials treated slavery as a crime, and worse as a mistake: far easier to buy off natives with axes, copper kettles, food and dependence-inducing rum.

The author paints a harsher picture of English-speaking America, from the first moments after the revolution. A sort of madness for land and expansion gripped the Yankees and English-speakers of the South, buttressed by "scientific" race theories that placed white Anglo-Americans over supposedly brutish Indians, Spaniards and those of mixed race. American settlers flooded California and Texas, grabbing land with the help of corrupt lawyers, broken treaty-promises, "popular tribunals" that were little more than judicial lynch-mobs, and, when all else failed, force. The war of Texan independence involved much daring, but was also explicitly motivated by the desire to escape Mexico's laws against slavery: Anglo settlers were anxious to import black slaves to pick cotton. The spectacle appalled such observers as John Quincy Adams, with the former president sorrowing that Texas joined the union tainted by two crimes, slavery and "robbery of Mexico". ▸▸

More than a century of unblushing, institutionalised racism followed, involving everything from segregated schools to guestworker schemes that left Mexicans at the mercy of exploitative bosses. Hard economic times triggered race riots and mass deportations.

Still Hispanics kept coming, most recently breaking out of urban and suburban strongholds to establish communities in small towns and rural counties in almost every state. A quarter of all American children are now from Spanish-speaking backgrounds. That prompts the book to two conclusions. The first—that a "second Hispanic colonisation" is under way—is essentially a bit of wordplay. The second—that "the United States is and has to be a Latin American country"—leads the author into a muddle. He offers a digression about the Protestant work ethic, and why that is a fiction behind which lurks anti-Catholic prejudice. He asks why, if the government in Washington is supposedly more democratic than the military dictatorships that blighted South America for so long, American troops have at times been used to break strikes or escort black children into Arkansas schools.

These final digressions are a shame: a quest for equivalence that is really an attempt to refute anti-Hispanic condescension. But the effort is not needed. The history of Hispanic North America is already fascinating, as the book shows. Yet—to be clear—it was also a story of the peripheries, not least for the Spanish empire itself. America is a country founded on a unique set of ideas, and most of them do not come from imperial Spain.

Hispanics will play an ever-larger role in shaping America. Centuries of proximity and shared history are bound to strengthen this. But modern America does not belong to any one race or culture: that is its genius. ■

New American fiction (1)

Mood music

Orfeo. By Richard Powers. *W.W. Norton; 369 pages; $26.95. Atlantic Books; £18.99*

WHAT is the point of music? Is it to move listeners or to wake them up? To be beautiful or brutal? Turf battles over these questions roiled the musical landscape of the past century, leaving it pockmarked with ruptures and revolutions. But what once was bold now sounds quaint. Few sonic tricks are left to raise an eyebrow.

So what is there for an avant-garde composer to do? For Peter Els, a retired 70-year-old loner in rural Pennsylvania, and the anti-hero of Richard Powers's 11th novel, "Orfeo", the answer lies in microbiology. His plan is to inscribe music into the genetic material of bacterium, to ensure it lasts "for forever and for no one". This idea is odd, but perhaps it is also a fitting coda to a lifetime spent creating jagged, alienating and often-ignored compositions. Regardless, Els's do-it-yourself genetic engineering falls foul of America's Homeland Security. Labelled "Bioterrorist Bach" by the shrill, fear-mongering media, a panicked Els hits the road and becomes a fugitive.

Mr Powers, an American writer, has a reputation for delivering the kind of cerebral books that woo critics and daunt readers. Music is a tricky subject to write about, and mixing it with science is trickier still. Yet "Orfeo" covers well-trodden territory for Mr Powers, whose novels often mine the peculiarities of the technological age.

Here, the author sees the poetry in chemistry, observing its "spectral harmonies and harmonic spectroscopy". But it is his wise, enthusiastic writing about music that will transport readers. When a young Els first hears the finale to Mozart's "Jupiter" symphony, he is charmed by its vital simplicity, the way "the thing spills out into the world like one of those African antelopes that fall from the womb,

still wet with afterbirth but already running." Oliver Messiaen, who composed the "Quartet for the End of Time" while starving in a Nazi prison camp, closes his startling work with a solo violin—"Pared back to its essence, the melody abides, burnt pure in the crucible of the war." Elsewhere a soprano's voice rings out like a "sterilised needle".

Music guides this lyrical novel, much of which tells the story of Peter Els in retrospect. The narrative switches between his present-day run from the law and his rambling past, filling in the details of his precocious adolescence, his loves and heartaches, and his struggle to make music that declared something new.

At first "Orfeo" seems like a timely story of governmental overreach—of security-related scare tactics and civil-liberties breached. But soon it becomes clear that this book is actually about the challenges that come with time and age. With most of his life behind him, Els is wistful for the romance of youth, the guileless potential of nascent creativity, the mistakes unmade, the frontiers unexplored. As an older, sadder, wiser man, he is still moved to make music, but it is a darker tune.

Congo

The horror, the horror

Stringer: A Reporter's Journey in the Congo. By Anjan Sundaram. *Doubleday; 288 pages; $25.95*

"BONGO bongo in the Congo"—that is how many of those who spend time in one of the world's most compelling and cruelly dysfunctional countries sometimes disparage what is written about it. Such writing has some unmistakable hallmarks: a nervous oscillation between fear and fascination with the country and its people; a gnawing suspicion that they may be cursed, evil or mad; and an obligatory reference to Joseph Conrad's "Heart of Darkness", a novella written over a century ago, when Congo was an unmapped slave state. Anjan Sundaram's account, "Stringer", has all this and more.

It is off-putting in several ways. Start with Mr Sundaram's basic narrative—that, forsaking a lucrative job in banking, he plunged into one of the world's most ignored countries with the improbable aim of rescuing it from obscurity and launching a career in journalism. This is, to put it kindly, an exaggeration. Congo is one of the most written-about countries in Africa. Jason Stearns, Gérard Prunier and Michela Wrong have recently done so with authority and brilliance. Far from obscure, Congo has also launched many journalistic careers: had Mr Sundaram wanted, as he claims, to bring a benighted country to global attention, he should have gone to the Central African Republic.

A bigger problem is what he says about Congo, most of which is unrelentingly hos- ▸▸

tile. Mr Sundaram shivers at the nocturnal pedestrians of Kinshasa, "the whites of their eyes stabbing the darkness". He recoils from their poverty, "'Give me money,' said the shapes of their lips." He appears to dread most of the Congolese he does not know and dislike many of those he does. He seems to find it genuinely amazing that anyone could be happy in such a wretched country. This is hardly insightful: it does not help explain why a war estimated to have claimed over 5m lives drags on in Congo.

Yet "Stringer" is still worth reading. It is a reminder of a reductive and fearful Western view of Africa that has prevailed for too long. More positively, as a writer Mr Sundaram shows signs of real talent. He has an acute eye and writes beautifully; his passages on Kinshasa, a city of street boys, prostitutes and diamond dealers, are always evocative. Even his "Heart of Darkness" reference—a description of a soldier firing his AK-47 into the jungle from aboard a Congo riverboat—is high class. Mr Sundaram is a gifted young writer. He will, one hopes, do better than this. ■

Technology and work

Learn 'n' go

The Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies. By Erik Brynjolfsson and Andrew McAfee. *W.W. Norton; 320 pages; $26.95*

IN 2012 Erik Brynjolfsson and Andrew McAfee took a ride in one of Google's driverless cars. The car's performance, they report, was flawless, boring and, above all, "weird". Only a few years earlier, "We were sure that computers would not be able to drive cars." Only humans, they thought, could make sense of the countless, shifting patterns of driving a car—with oncoming traffic, changing lights and wayward jaywalkers.

Machines have mastered driving. And not just driving. In ways that are only now becoming apparent, the authors argue, machines can forecast home prices, design beer bottles, teach at universities, grade exams and do countless other things better and more cheaply than humans.

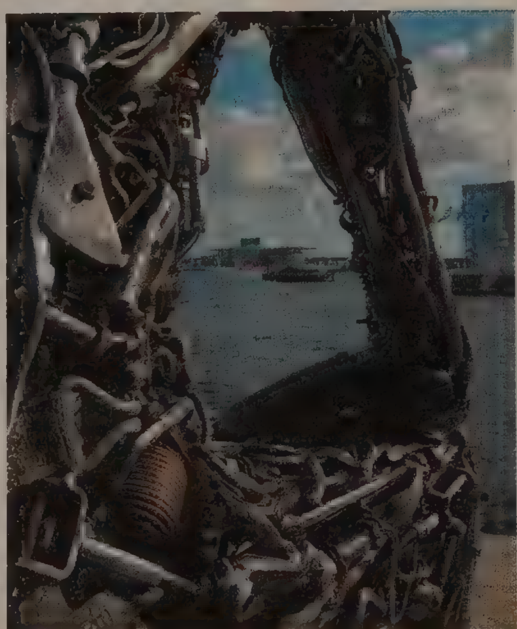
Mr Brynjolfsson and Mr McAfee, an economist and scientist respectively at the Massachusetts Institute of Technology's Centre for Digital Business, first described this in 2011 in their self-published e-book "Race Against the Machine". "The Second Machine Age", which grew out of that earlier work, is an ambitious, engaging and at times terrifying vision of where modern technology is taking the human race.

Innovation has always driven advances in mankind's standard of living, from agriculture to electricity. Information technology, the authors argue, is quantitatively and qualitatively different. It is, thanks to Moore's law, exponential: its effects, barely perceptible for the first few decades, are turning explosive. It is also digital. Formerly complex tasks can be mastered then reproduced and distributed at almost no cost. Finally, it is recombinant, merging separate, existing innovations and innovators through networks and crowdsourcing.

This will have one principal good consequence, and one bad. The good is bounty. Households will spend less on groceries, utilities and clothing; the deaf will be able to hear, the blind to see. The bad is spread. The gap is growing between the lucky few whose abilities and skills are enhanced by technology, and the far more numerous middle-skilled people competing for the remaining jobs that machines cannot do, such as folding towels and waiting at tables.

Economists believe innovation is always good for society because workers displaced in one industry will find jobs supplying new goods and services. The authors acknowledge this but ask, "What if this process takes a decade? What if, by then, the technology has changed again?" Some people, they gloomily predict, will have nothing that employers will want even at a salary of a few dollars per hour, citing the example of horses, put forward by Wassily Leontief, an economist; they were never able "to adjust to the invention of the tractor."

This has a familiar ring. A few years ago there were credible estimates that a quarter of American jobs could be sent offshore. Those apocalyptic totals seem unlikely ever to be reached. Mr Brynjolfsson and Mr McAfee may be similarly right about the potential for machines to displace middle-class workers, but wrong about the magnitude.



He's developing new skills

In case they turn out to be right, they offer prescriptions. People should develop skills that complement, rather than compete with computers, such as idea generation and complex communication. Policymakers should improve basic education, pour money into infrastructure and basic research, admit more skilled immigrants, and shift the burden of taxes from wages to consumption. This is sensible, but unsatisfying: it may expand the circle of winners and reshuffle its membership, though it seems unlikely that it will fundamentally alter the growing gap between them and the losers. The authors may not have the solution to growing inequality, but their book marks one of the most effective explanations yet for the origins of the gap. ■

New American fiction (2)

Change of pace

On Such a Full Sea. By Chang-rae Lee. *Riverhead; 368 pages; $27.95. Little, Brown; £13.99*

FEW American novelists delineate their characters as adeptly as Chang-rae Lee. He gave life to kindly, withdrawn Doc Hata in "A Gesture Life" and the emotionally stunted Henry Park, pulled between his ancestral Korea and native United States in "Native Speaker", through their imaginations: they think therefore they are. He expanded to a broader canvas (love, war) in "The Surrendered", but remained a writer of conventionally realistic fiction.

Mr Lee's new book marks a profound departure. "On Such a Full Sea" is set in a not-too-distant future, after environmental degradation has rendered much of China uninhabitable, and America has stratified into three classes: the cosseted wealthy in their well-protected "charter villages"; descendants of displaced Chinese who inhabit abandoned and cleverly renamed American cities (B-Mor for Baltimore, D-Troy for Detroit); and everyone else, living in the lawless "open counties". Around Mr Lee's dystopian society hang shadows of Neal Stephenson and Cormac McCarthy; around his resourceful teenage protagonist hangs the much larger shadow of "The Hunger Games" by Suzanne Collins.

The heroine, Fan, leaves the safe confines of B-Mor and heads off in search of the father of her unborn child. Along the way she encounters various oddball characters: a disgraced vet who heads a scrappy compound of survivors, a family of vegetarian acrobats, a wealthy rare-earths ▸▸

trader and his pill-popping wife. Interleaved with this is the B-Mor story. Mr Lee writes in the second person, allowing B-Mor's residents to contrast Fan's bravery with their placid contentedness.

The book has an oddly disembodied quality, emphasised by Mr Lee's airless, hyperprecise, overwritten prose. Earlier excursions into genre fiction have freed some writers. John Banville's alter-ego, Benjamin Black, is one example. Another is Justin Cronin's post-apocalyptic vampire trilogy, "The Passage", which far outshines the dutiful writers' workshop fiction he turned out before. But it seems to imprison Mr Lee. His vision of the future is shopworn; other writers have done it before, and better. He has written a road novel that moves too slowly, a thriller that never condescends to thrill. ■

Chiwetel Ejiofor

The power of quiet

Making a virtue of restraint

A SUITE at Claridge's Hotel in central London. Thick carpets, thicker curtains. White linen on the tables and a personal waiter in attendance; in a corner of the room a public-relations assistant taking notes. Arranging this interview with Chiwetel Ejiofor has taken 43 e-mails, three months and five changes of date, time and venue. These are the kind of numbers you might expect for a major Hollywood player; Robert De Niro perhaps. It seems Mr Ejiofor, born in London to Nigerian parents, is edging into a new role: that of Britain's first black film star.

Now 36, Mr Ejiofor has certainly starred in films, most recently, Steve McQueen's "12 Years a Slave", the feted account of a free man's captivity on the Louisiana plantations. Before that he shared lead space with, among others, Don Cheadle, an American comedy actor, in "Talk to Me" and Audrey Tautou, a French actress, in Stephen Frears's "Dirty Pretty Things". In an 18-year career, which has included more than 25 feature films, two big-budget British drama series and a fistful of West End stage appearances, he has yet to turn in a duff, or even workaday, performance.

On camera, Mr Ejiofor fills the frame with the right amount of Cary Grant square-shoulderedness, yet is flexible enough to use his whole body when required. His emotional range is wide and subtle; he knows how to surprise an audience's ear with different intonations (a trick he says he learned from another British actor, Bill Nighy) and he has the vital ability to stay absolutely motionless while projecting emotion like a slingshot. Watch the moment in "Kinky Boots" when his drag-queen Lola is called "half a man" by someone he considers a friend: his outline slumps, almost imperceptibly, from adult to lost boy. But there is something oddly forgettable about him. Walk away from an Ejiofor film, and it is the story you remember, not the actor.

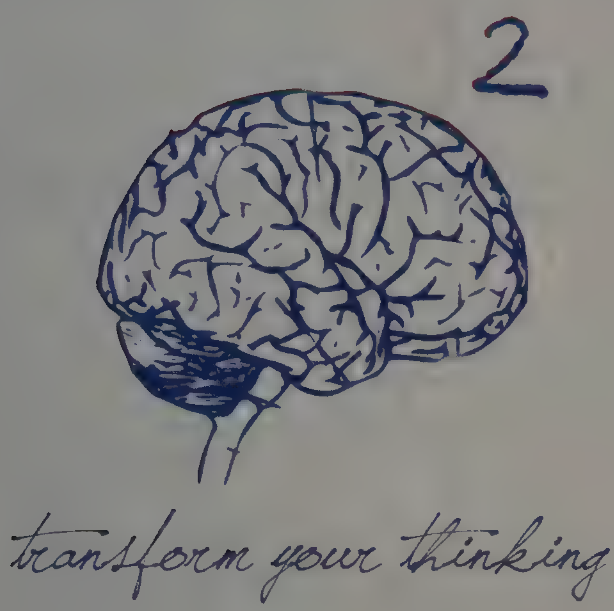
In life, he is a restrained presence. He wears dark jeans so neatly pressed that they might be suit trousers, a blue shirt, a discreet dark jacket. He has a rough beard that conceals his face; his hair is more grown out than in most of his roles, where he tends to wear it cut close and formal. He sits forward in his chair, listening carefully. When he doesn't understand a question he frowns slightly, but is too polite to harrumph or bat it away. His answers are thoughtful, well worded, but unrevealing. Which directors would you like to work with next? "There are plenty of people out there that are very talented film-makers." Is it depth of character that draws you to a part? "If they're complex I just find that much more interesting as a way of working." So you're not about to get into a vest and start running and jumping off buildings? "Who knows? It depends."

Don't bet on it. Directors like to use Mr Ejiofor as the dependable centre around which to build their films. He embodies honesty, nobility, soulful bulk. It was clear as early as 2002 what an extraordinary Othello he could make—which he did, in 2007, in a period-dress production so unshowy that it only highlighted the depth of his dive into the Moor's soul. But on film the characters he plays are often either repressed or oppressed. In Stephen Poliakoff's baggy jazz-era drama "Dancing on the Edge" Mr Ejiofor's bandleader was a good man to whom bad things happened; the action (mostly) came to him rather than the other way round.

It is the same in "12 Years a Slave". So far Mr Ejiofor's performance has received more than 30 different award nominations, but it is in truth quite a simple thing: the stilled-ness of a cornered animal, brow furrowed like a puppy's, eyes round and wide, an ordinary man who cannot edit out the evils he sees. The real acting fireworks come from Michael Fassbender as the white plantation-owner on the rack of his own guilt, lust and rage. It is his reactions, not Mr Ejiofor's wielding of the lash, that create the slaughterhouse horror of the scene where a female slave is whipped to a riven unconsciousness. Mr Ejiofor's role is to be passive, bound, unable to move or make a difference. He does it well. He has been nominated for an Oscar, but does he do it too quietly to carry the day?

Despite the hoohah and high expectations, he did not win his category at the Golden Globes earlier this month or at the Screen Actors Guild awards. In both cases voters preferred the former heartthrob Matthew McConaughey playing a ravaged AIDS activist in "Dallas Buyers Club".

Film stars must be more than just fine actors. They need to imprint their faces on the audience, be a vehicle for dreams. That often demands an overweening ego, and Mr Ejiofor seems too careful an actor, too interested in what he calls "the brushwork" of his craft, to do anything other than serve the demands of the role. That is certainly worth celebrating, but to call him a film star is premature—and does him an injustice. ■



Oxford Finance and Strategy programmes

Oxford Scenarios Programme
28 Apr – 2 May 2014

Oxford Finance Programme for Senior Executives
16-20 Jun 2014

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Appointments

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C40 supports the world's megacities in achieving meaningful reductions of greenhouse gas emissions and climate risk. Through C40, the governments of 63 world cities share knowledge and work together on local efforts that achieve global impact.

C40 has staff of 40 (growing to 60 in 2014), with recruiting in London & New York, and an annual operating budget of $10 million. As a membership organization, it is governed by a 10-city Steering Committee chaired by Mayor Eduardo Paes of Rio, and led by Board President Michael R. Bloomberg, former Mayor of New York. It works in partnership with the William J. Clinton Foundation.

Currently open executive team posts include: Director of Operations (HR & Finance), Director of Communications, and Director of Governance & Global Partnerships.

All job descriptions may be found at http://www.c40.org/careers.

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Members will enjoy the intellectual challenge and bring an impeccable track record in one or more of the following:

- Developing and implementing macroeconomic policy, for example at a central bank or within government.
- Relevant senior economics positions in the private sector.
- Leading academic research in areas such as macroeconomic and fiscal policy, with a focus on the practical implementation of policy.

The FPP is expected to require about one day a month of members' time.

For a full candidate brief and further information please contact: a.philippe@gov.je or telephone 01534 440019.

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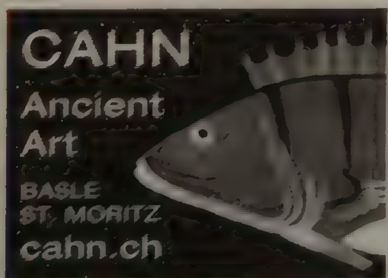

Tenders

REQUEST FOR EXPRESSIONS OF INTEREST (CONSULTING SERVICES)

Republic of Yemen

Preparation and Implementation Support Project for The Special Industrial Zone -SIZ- in Al-Hodeida City

The Government of Yemen has received financing from the MENA Transition Fund (a Deauville Partnership initiative) to implement the "Preparation and Implementation Support for The Special Industrial Zone -SIZ- in Al-Hodeida" (the Project). The Islamic Development Bank (IsDB) has been tasked as the implementation support agency and the fund caretaker for the project. The Government of Yemen intends to use the financing for contracting a consultancy firm/firms to execute the components of the referenced project. In May 2011, The G8 launched the Deauville Partnership as a response to the historical changes under way in several countries in the Middle East and North Africa region. The Deauville Partnership was launched as a long-term, global initiative that provides Arab countries in transition with a framework based on technical support to: (i) strengthen governance for transparent, accountable governments, and (ii) provide an economic framework for sustainable and inclusive growth. To support the countries in transition to formulate policies and programs and implement reforms, the Deauville Partnership set up the MENA Transition Fund. The Transition Fund is a broad-based partnership providing grants for technical cooperation to help transition countries strengthen their governance, social and economic institutions by developing and implementing home-grown and country-owned reforms.

The following are the high-level Project objectives:

- *Delivery of comprehensive & implementable PPP-based package for Hodeida-SIZ to The Government of Yemen.*
- *Establishment of a legal entity 'SIZ Administration Agency' supported by a conducive legal, institutional and regulatory framework.*
- *Delivery of integrated Institutional Support and Capacity Building package to the 'SIZ Administration Agency' upon its establishment.*

In this regard, The Government of Yemen, invites consultancy firms to indicate their interest in providing advisory services for the Project. Interested consultants must provide specific information that demonstrates that they are fully qualified to perform the services (brochures, description of similar assignments with supportive references, experience in similar conditions/countries, availability of appropriate skills among staff, etc.).

The selected consultancy firm will work in two parallel and interdependent tracks, i.e. (1) Project Preparation Advisory to design and prepare the Project finance package, and (2) Legal and Regulatory Advisory to design and prepare the legal package. Accordingly, the scope of the assignment will cover:

Component 1: Project Preparation Activities:

Sub-component 1.1: Economic, Policy and Market Assessment
Sub-component 1.2: Site Evaluation, Master Planning and Costing
Sub-component 1.3: Social and Environmental Assessment
Sub-component 1.4: Economic and Financial Analysis and Structuring
Sub-component 1.5: Development Strategy and Implementation Plans

Component 2: Legal and Regulatory Advisory:

Sub-component 2.1: Legal Assessment of the legal, regulatory and institutional environment related to the SIZ.
Sub-component 2.2: Institutional and Regulatory Models
Sub-component 2.3: PPP Concession Agreement(s)

Consultancy firms may express their interest in the form of an association, validated by an agreement among members which clearly specifies the type of association, i.e. a joint-venture, intermediate forms of association, or sub consultancy.

A consultancy firm will be selected in accordance with the procedures set out in the Guidelines for the Use of Consultants under Islamic Development Bank Financing (May 2009 Edition).

Further information on the assignment may be obtained at the addresses below during office hours (9:00 am to 02 pm, GMT+03).

Expressions of interest must be delivered to the addresses below by 10 February 2014 through email.

Attention to:

Mr. Abdulilah Shaiban
Secretary General
Ministry of Industry and Trade
P.O. Box 1916
Republic of Yemen
Tel: + 967 711738641
Fax: +967 1 202595
Email: shaiban1962@gmail.com

Economic data

% change on year ago

	Gross domestic product			Industrial production	Consumer prices		Unemployment rate, %	Current-account balance		Budget balance	Interest rates, %	Currency units, per $	
	latest	qtr*	2013†	latest	latest	2013†		latest 12 months, $bn	% of GDP 2013†	% of GDP 2013†	10-year gov't bonds, latest	Jan 22nd	year ago
United States	+2.0 Q3	+4.1	+1.8	+3.7 Dec	+1.5 Dec	+1.5	6.7 Dec	-398.7 Q3	-2.5	-4.1	2.86	-	-
China	+7.7 Q4	+7.4	+7.7	+9.7 Dec	+2.5 Dec	+2.6	4.0 Q3§	+184.0 Q3	+1.9	-2.0	4.38§§	6.05	6.22
Japan	+2.4 Q3	+1.1	+1.7	+4.8 Nov	+1.6 Nov	+0.2	4.0 Nov	+37.8 Nov	+0.9	-8.2	0.68	104	88.5
Britain	+1.9 Q3	+3.1	+1.5	+2.5 Nov	+2.0 Dec	+2.6	7.1 Oct††	-94.9 Q3	-3.7	-6.7	3.04	0.60	0.63
Canada	+1.9 Q3	+2.7	+1.7	+3.1 Oct	+0.9 Nov	+1.0	7.2 Dec	-59.9 Q3	-3.0	-3.0	2.50	1.11	0.99
Euro area	-0.3 Q3	+0.5	-0.4	+3.0 Nov	+0.8 Dec	+1.4	12.1 Nov	+270.7 Oct	+2.0	-2.9	1.77	0.74	0.75
Austria	+0.7 Q3	+2.5	+0.4	-0.6 Oct	+1.9 Dec	+1.8	4.8 Nov	+9.6 Q3	+2.5	-2.9	2.12	0.74	0.75
Belgium	+0.4 Q3	+1.2	+0.1	+6.3 Oct	+1.0 Dec	+1.2	8.4 Nov	-12.6 Sep	-1.5	-3.0	2.49	0.74	0.75
France	+0.2 Q3	-0.5	+0.2	+1.5 Nov	+0.7 Dec	+1.0	10.8 Nov	-42.1 Nov	-1.9	-4.1	2.44	0.74	0.75
Germany	+0.6 Q3	+1.3	+0.5	+3.5 Nov	+1.4 Dec	+1.5	6.9 Dec	+260.0 Nov	+6.9	+0.1	1.77	0.74	0.75
Greece	-3.0 Q3	na	-3.6	-6.1 Nov	-1.7 Dec	-0.9	27.8 Oct	+1.3 Oct	+0.8	-2.2	8.33	0.74	0.75
Italy	-1.8 Q3	-0.1	-1.8	+1.4 Nov	+0.7 Dec	+1.3	12.7 Nov	+18.2 Nov	+0.5	-3.3	3.84	0.74	0.75
Netherlands	-0.4 Q3	+0.8	-1.1	+0.5 Nov	+1.7 Dec	+2.4	8.2 Nov	+83.6 Q3	+9.5	-3.5	2.06	0.74	0.75
Spain	-1.2 Q3	+0.5	-1.3	+0.2 Nov	+0.3 Dec	+1.5	26.7 Nov	+10.4 Oct	+0.8	-7.1	3.73	0.74	0.75
Czech Republic	-0.3 Q3	+0.9	-1.4	+6.3 Nov	+1.4 Dec	+1.4	8.2 Dec§	-3.4 Q3	-0.6	-2.8	2.36	20.3	19.3
Denmark	+0.5 Q3	+1.5	+0.5	-1.5 Nov	+0.8 Dec	+1.1	5.7 Nov	+22.7 Nov	+4.5	-0.3	1.85	5.50	5.62
Hungary	+1.8 Q3	+3.6	+0.7	+5.8 Nov	+0.4 Dec	+1.7	9.3 Nov§††	+3.1 Q3	+1.8	-3.0	5.40	223	222
Norway	+2.1 Q3	+2.9	+1.3	+0.3 Nov	+2.0 Dec	+2.3	3.3 Oct‡‡	+61.0 Q3	+12.8	+13.0	2.97	6.16	5.59
Poland	+1.9 Q3	na	+1.5	+6.6 Dec	+0.7 Dec	+0.9	13.4 Dec§	-9.0 Nov	-2.1	-4.0	4.36	3.07	3.14
Russia	+1.2 Q3	na	+1.5	-1.0 Nov	+6.5 Dec	+6.8	5.4 Nov§	+33.0 Q4	+2.3	-0.5	8.10	33.9	30.3
Sweden	+0.3 Q3	+0.3	+0.9	+3.5 Nov	+0.1 Dec	+0.1	7.5 Nov§	+34.3 Q3	+6.0	-2.0	2.35	6.47	6.53
Switzerland	+1.9 Q3	+2.1	+1.9	+0.7 Q3	+0.1 Dec	-0.2	3.2 Dec	+79.9 Q3	+10.9	+0.2	1.06	0.91	0.93
Turkey	+4.4 Q3	na	+3.9	+4.6 Nov	+7.4 Dec	+7.5	9.7 Oct§	-60.8 Nov	-7.5	-1.2	10.11	2.26	1.77
Australia	+2.3 Q3	+2.3	+2.4	+2.7 Q3	+2.7 Q4	+2.4	5.8 Dec	-51.3 Q3	-2.8	-3.1	4.18	1.13	0.95
Hong Kong	+2.9 Q3	+2.1	+3.0	-0.9 Q3	+4.3 Dec	+4.3	3.2 Dec‡‡	+5.4 Q3	+2.1	+1.8	2.38	7.76	7.75
India	+4.8 Q3	+16.5	+4.9	-2.1 Nov	+9.9 Dec	+10.1	9.9 2012	-76.9 Q3	-3.1	-5.1	8.61	61.9	53.8
Indonesia	+5.6 Q3	na	+5.6	-1.9 Nov	+8.4 Dec	+7.0	6.3 Q3§	-32.1 Q3	-3.9	-3.3	na	12,140	9,620
Malaysia	+5.0 Q3	na	+4.8	+4.3 Nov	+3.2 Dec	+2.1	3.4 Nov§	+14.2 Q3	+5.0	-4.2	4.22	3.32	3.04
Pakistan	+6.1 2013**	na	+6.1	+3.4 Nov	+9.2 Dec	+7.7	6.2 2013	-4.0 Q4	-1.4	-8.0	12.53†††	105	97.7
Singapore	+4.4 Q4	-2.7	+3.7	+3.9 Nov	+1.5 Dec	+2.4	1.8 Q3	+49.8 Q3	+19.9	+2.1	2.48	1.28	1.23
South Korea	+4.0 Q4	+3.7	+2.7	-1.3 Nov	+1.1 Dec	+1.3	3.0 Dec§	+66.6 Nov	+4.6	+0.9	3.68	1,067	1,062
Taiwan	+1.7 Q3	+1.1	+1.8	-0.5 Nov	+0.3 Dec	+0.8	4.1 Dec	+56.3 Q3	+11.5	-2.3	1.66	30.2	29.0
Thailand	+2.6 Q3	+5.2	+3.0	-10.6 Nov	+1.7 Dec	+2.2	0.6 Oct§	-6.1 Q3	-1.6	-3.1	3.73	32.9	29.7
Argentina	+5.5 Q3	-0.7	+5.1	-4.7 Nov	— ***	—	6.8 Q3§	-3.5 Q3	-0.6	-3.3	na	6.92	4.96
Brazil	+2.2 Q3	-1.9	+2.2	+0.4 Nov	+5.9 Dec	+6.2	4.6 Nov§	-81.1 Nov	-3.7	-2.7	13.08	2.36	2.05
Chile	+4.7 Q3	+5.4	+4.4	+3.3 Nov	+3.0 Dec	+1.8	5.7 Nov§††	-9.5 Q3	-3.6	-1.0	5.02	542	471
Colombia	+5.1 Q3	+4.5	+4.2	+0.2 Nov	+1.9 Dec	+2.0	8.5 Nov§	-12.6 Q3	-3.5	-0.7	6.89	1,983	1,777
Mexico	+1.3 Q3	+3.4	+1.2	-1.4 Nov	+4.0 Dec	+3.8	4.8 Dec	-24.9 Q3	-1.6	-2.6	7.75	13.3	12.7
Venezuela	+1.1 Q3	-0.8	+1.1	+0.8 Sep	+56.1 Dec	+40.6	5.6 Dec§	+6.9 Q3	+3.2	-9.5	na	6.29	4.29
Egypt	+1.0 Q3	na	+2.0	-16.7 Nov	+11.7 Dec	+8.5	13.4 Q3§	-4.5 Q3	-2.5	-13.7	na	6.96	6.64
Israel	+2.4 Q3	+2.3	+3.2	-4.1 Nov	+1.8 Dec	+1.5	5.5 Nov	+3.3 Q3	+1.6	-3.2	3.68	3.49	3.74
Saudi Arabia	+3.8 2013	na	+2.9	na	+3.0 Dec	+3.7	5.5 2012	+137.0 Q2	+18.4	+6.1	na	3.75	3.75
South Africa	+1.8 Q3	+0.7	+1.9	+0.4 Nov	+5.4 Dec	+5.8	24.7 Q3§	-22.1 Q3	-6.5	-4.8	8.15	10.9	8.85

Source: Haver Analytics. *% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ‡New Series. **Year ending June. ††Latest 3 months. ‡‡3-month moving average. §§5-year yield ***Official number not reliable; The State Street PriceStats Inflation Index, December 23.38%; year ago 25.98% †††Dollar-denominated bonds.

Markets

	Index Jan 22nd	% change on one week	% change on Dec 31st 2012 in local currency	% change on Dec 31st 2012 in $ terms
United States (DJIA)	16,373.3	-0.7	+24.9	+24.9
China (SSEA)	2,147.1	+1.4	-9.6	-7.0
Japan (Nikkei 225)	15,821.0	+0.1	+52.2	+26.2
Britain (FTSE 100)	6,826.3	+0.1	+15.7	+18.1
Canada (S&P TSX)	13,988.2	+1.6	+12.5	+1.4
Euro area (FTSE Euro 100)	1,035.1	-0.3	+20.8	+24.3
Euro area (EURO STOXX 50)	3,151.3	-0.6	+19.6	+23.0
Austria (ATX)	2,707.2	-0.8	+12.7	+16.0
Belgium (Bel 20)	2,952.4	-0.2	+19.2	+22.7
France (CAC 40)	4,325.0	-0.2	+18.8	+22.2
Germany (DAX)*	9,720.1	-0.1	+27.7	+31.4
Greece (Athex Comp)	1,222.9	-4.7	+34.7	+38.6
Italy (FTSE/MIB)	19,958.4	-0.4	+22.6	+26.2
Netherlands (AEX)	407.5	-0.3	+18.9	+22.3
Spain (Madrid SE)	1,049.9	-2.4	+27.3	+31.0
Czech Republic (PX)	1,029.6	-0.6	-0.9	-7.0
Denmark (OMXCB)	598.3	+0.3	+32.2	+36.0
Hungary (BUX)	19,596.5	+0.9	+7.8	+6.8
Norway (OSEAX)	618.2	-0.1	+26.0	+13.9
Poland (WIG)	51,906.5	+1.6	+9.4	+10.3
Russia (RTS, $ terms)	1,391.8	-0.7	+1.3	-8.9
Sweden (OMXS30)	1,355.2	+0.9	+22.7	+23.3
Switzerland (SMI)	8,466.7	+0.5	+24.1	+24.8
Turkey (BIST)	67,367.3	-1.1	-13.9	-32.0
Australia (All Ord.)	5,331.3	+1.4	+14.3	-2.7
Hong Kong (Hang Seng)	23,082.3	+0.8	+1.9	+1.8
India (BSE)	21,337.7	+0.2	+9.8	-2.7
Indonesia (JSX)	4,477.5	+0.8	+3.7	-17.7
Malaysia (KLSE)	1,814.1	-0.5	+7.4	-1.2
Pakistan (KSE)	27,015.1	+0.9	+59.8	+47.4
Singapore (STI)	3,133.7	-0.3	-1.1	-5.5
South Korea (KOSPI)	1,970.4	+0.9	-1.3	-1.0
Taiwan (TWI)	8,625.3	+0.3	+12.0	+7.9
Thailand (SET)	1,290.5	+1.1	-7.3	-13.7
Argentina (MERV)	5,896.7	+3.7	+107	+46.7
Brazil (BVSP)	49,299.7	-1.6	-19.1	-29.9
Chile (IGPA)	18,248.4	+1.1	-13.4	-23.5
Colombia (IGBC)	12,566.1	-0.3	-14.6	-23.9
Mexico (IPC)	42,062.8	-1.1	-3.8	-6.3
Venezuela (IBC)	2,841.8	+2.9	+503	na
Egypt (Case 30)	7,179.5	-0.3	+31.4	+20.2
Israel (TA-100)	1,227.8	-1.4	+17.0	+25.2
Saudi Arabia (Tadawul)	8,761.2	+0.2	+28.8	+28.8
South Africa (JSE AS)	47,001.0	+1.2	+19.7	-6.6

Football wealth

Real Madrid leads Deloitte's European football money league for a record ninth year running. The Spanish club earned €519m ($674m) in the 2012-13 season. Bayern Munich knocks Manchester United out of the top three for the first time after the Bavarians secured a domestic and European treble in 2013. The biggest climber is Paris Saint-Germain, which shot from outside the top 30 into fifth place with turnover up by 81% from the previous season, thanks largely to the highest-ever commercial revenue for a football club, of €254.7m. Manchester City continues its ascent, moving ahead of both Chelsea and Arsenal into sixth place. Over a third of the top 20 clubs are now controlled by non-Europeans.

Other markets

	Index Jan 22nd	% change on one week	% change on Dec 31st 2012 in local currency	% change on Dec 31st 2012 in $ terms
United States (S&P 500)	1,844.9	-0.2	+29.4	+29.4
United States (NAScomp)	4,243.0	+0.7	+40.5	+40.5
China (SSEB, $ terms)	248.9	+1.6	-1.3	+1.6
Japan (Topix)	1,299.6	+0.4	+51.2	+25.4
Europe (FTSEurofirst 300)	1,347.1	+0.5	+18.8	+22.2
World, dev'd (MSCI)	1,661.7	+0.1	+24.1	+24.1
Emerging markets (MSCI)	976.5	-0.1	-7.5	-7.5
World, all (MSCI)	407.6	+0.1	+20.0	+20.0
World bonds (Citigroup)	909.6	+0.1	-3.7	-3.7
EMBI+ (JPMorgan)	651.8	-0.6	-8.3	-8.3
Hedge funds (HFRX)	1,231.4§	nil	+7.2	+7.2
Volatility, US (VIX)	12.8	+12.3	+18.0	(levels)
CDSs, Eur (iTRAXX)†	72.5	+4.0	-40.6	-38.9
CDSs, N Am (CDX)†	65.5	+3.2	-33.5	-33.5
Carbon trading (EU ETS) €	5.0	+1.8	-25.9	-23.8

Sources: Markit; Thomson Reuters. *Total return index. †Credit-default-swap spreads, basis points. §Jan 21st

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The Economist commodity-price index

2005=100

	Jan 14th	Jan 21st*	% change on one month	% change on one year
Dollar Index				
All Items	164.4	163.3	-1.2	-12.7
Food	181.2	178.6	-2.2	-15.4
Industrials				
All	146.8	147.5	nil	-9.0
Nfa†	155.4	156.9	-1.6	-6.2
Metals	143.2	143.5	+0.8	-10.2
Sterling Index				
All items	181.6	180.4	-1.8	-15.8
Euro Index				
All items	149.3	150.0	-0.3	-14.3
Gold				
$ per oz	1,251.5	1,241.4	+3.3	-26.7
West Texas Intermediate				
$ per barrel	92.5	95.0	-3.9	-1.1

Sources: Bloomberg; CME Group; Cotlook; Darmenn & Curl; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. *Provisional †Non-food agriculturals.

Hiroo Onoda

Hiroo Onoda, soldier of the Japanese imperial army, died on January 16th, aged 91

BEFORE he approached the tent where his commanding officer waited on March 9th 1974, Hiroo Onoda did two things. First, he inspected his rifle. (The Arisaka 99 still worked perfectly; over almost 30 years he had treated it as tenderly as a baby.) Then he retied his boots. Nothing must be slipshod. A soldier of the god-emperor had to be pure, prepared and spiritually invincible.

He had taken elaborate care to get this far. All his guerrilla training had been employed in case, as he suspected, he was walking into a trap. He had planned the meeting for the evening, when there would be just enough light to recognise a face but not enough to hinder his escape, if necessary. Palm and *bosa* trees hid him as he crept down from the mountains. To cross clearings, he camouflaged his threadbare army uniform—more neatly sewn patches than uniform—with sticks and leaves. Wherever it was safe, he rested.

It was helpful that, after three decades living off the land, he was familiar with every inch of Lubang Island in the Philippines. He knew when local farmers would be about, and where, because he stole coconuts and mangoes from them and shot their cattle in order to survive. Sometimes he killed the farmers, too. After all, this was war, and he had his orders. The orders were that, though the rest of the Japanese army had withdrawn from the island in February 1945 when the Americans invaded, he, as an intelligence officer, should stay, spy on the enemy and wait for his colleagues to return. So he had waited.

In the beginning he commanded a unit of three men, but they had died at various points, two shot by the Philippine police. The war had gone very quiet, so quiet that in 1964, to his surprise, America and Japan competed in apparent amity at the Olympic games. But the island still crawled with American agents and spies, who kept dropping leaflets urging him to surrender. All of it was trickery, he thought. He told the young Japanese hiker who eventually found him that he would not stop fighting until his commanding officer, Major Yoshimi Taniguchi, ordered him to cease in person. So on that day in 1974 the elderly major, now a bookseller, especially summoned from Japan, gave him his new orders. Mr Onoda at once laid down his rifle, 500 rounds, his ceremonial sword and sword-belt and his dagger in its white case, and saluted the flag of the rising sun.

If it was not a surrender, it still felt crushingly like one. For Major Taniguchi informed him not only that the war was over, but that Japan had lost. Mr Onoda's first thought was: how could they be so sloppy? Rather than lose, rather than lay down arms like this, a Japanese soldier was supposed to die. And he felt like dying. "Do not live in shame," General Tojo had written; "leave no ignominious crime behind you." His mother had given him his dagger, as he left for active service, to kill himself with if he was captured.

She meant it, for when he behaved uncontrollably at the age of six she had taken him to the family shrine to commit *harakiri* then and there. Of course he hadn't been able to cut his small, quaking belly. Who could, at six? Later, it would have been almost easy. But in fact his orders in 1945 had been to stay alive, not to die. Intelligence officers were more useful that way. It meant he risked being an outcast when he returned to Japan, simply because he had not made the supreme sacrifice and added his name to the divinities honoured at the Yasukuni shrine. His duty, however, was to spend every moment serving his country in exactly the way he had been told.

That civic imperative was what mattered, he said later; nothing personal or individual. But pride entered the equation, too. He was fiercely competitive, honed with *kendo* and swimming—though also with a 50-a-day cigarette habit before he went into hiding—and loved to show off how well he could fend for himself. The man who kept neat and trim for years in the jungle had also cut quite a figure at 18 in central China, as a travelling salesman for a lacquerware company, driving a 1936 Studebaker and wearing English tailored suits. He had style and stubbornness as well as self-discipline. Outside reports said he wept uncontrollably as he laid his rifle down. He merely wrote that, in the course of delivering a night-long field report that covered 29 years, he faltered once or twice.

Sleeping and waking

Returning to Japan as a hero, he did not know what had become of the place. He found it cowed, drowsy, and denuded of self-confidence. Japan was blamed for the East Asian war when, in his view, it had had no choice but to fight in order to survive. The Americans, who had stripped the country of its military power and made the emperor a cypher, also seemed to have drained away the national will. After barely a year at home, loudly on the right of politics, Mr Onoda left for Brazil to be a cattle-rancher and take a wife. He eventually came back to establish a school where modern Japanese children could learn to survive in the wild, like him.

In 2007 he offered his "words to live by" to the *Japan Times*. Almost all were to do with civic duty and self-reliance. One thought stood out: "There are some dreams from which it is better not to wake." By which he meant, he explained, his long dream of war. ■

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